

The Chugoku Electric Power Co., Inc. (JAPAN)

Annual Report 2017

Year Ended March 31, 2017





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To Our Dear Stockholders and Investors

We would like to express our sincere gratitude to our stockholders and investors for your extremely generous support. Greetings to everyone.

Looking at the business environment surrounding our organization, following the full liberalization of the retail sale of electricity last April, moves to fully liberate the retail sale of gas were started this April and it is expected that cross-regional and cross-sector competition will intensify even more from now on. Moreover, with legal separation of the power transmission/distribution sector being required by April 2020, the electricity business is facing an era of great change.

As for the Energia group, we are still in a severe situation, as there is still no prospect of restarting our Shimane Nuclear Power Station, which will be indispensable for radical recovery of the business base and stabilization of our business.

In these circumstances, the Energia group will strive to improve the state of our revenue and expenditure and prevent our financial structure from deteriorating through thoroughly enhancing business efficiency, and we will work on developing and expanding growth businesses in which we can exploit our strengths.

In response to the full liberalization of the retail sale of electricity, we will provide high value-added services to meet diverse energy-related needs ranging from home to commercial, so as to go on being chosen by the customers of the Chugoku Region, which is our operating base. In addition, with a view to establishing new revenue base, we will take steps to promote electricity business in areas outside the Chugoku Region and overseas power generation business.

Regarding Shimane Nuclear Power Station, in addition to complying with the new regulatory requirements, we will continue to engage in improving of safety as we make maximal efforts toward operation restart and commissioning while obtaining the understanding of the local people.

Concerning the year-end dividends of FY2017, the consolidated revenue and profits for the year decreased, however, in line with our basic policy of continuing with a stable dividend of 50 yen per share, we will pay 25 yen per share as was also the case in the interim dividends.

As we stated in Energia Group Corporate Vision, we will be striving to be a “corporate group that people choose in the region and that grow beyond the region” in order to be able to meet our stockholders’ and investors’ expectations

We request your continued cooperation and support into the future.

August 2017



Tomohide Karita

Representative Director
Chairperson of the Board

Mareshige Shimizu

Representative Director
President & Chief Executive Officer

Corporate Profile

For over half a century since its founding in 1951, The Chugoku Electric Power Co., Inc. has fulfilled a mission of providing a stable supply of electricity and has thereby contributed to the development of its region.

The Chugoku Region, which forms the main part of our supply area, is located at the western end of Japan's main island of Honshu and has an area of 32,000 square kilometers and a population of roughly 7.4 million. The region contains a large number of manufacturing hubs, in fields such as machinery, chemicals and steel, which are pillars of Japan's manufacturing industry.

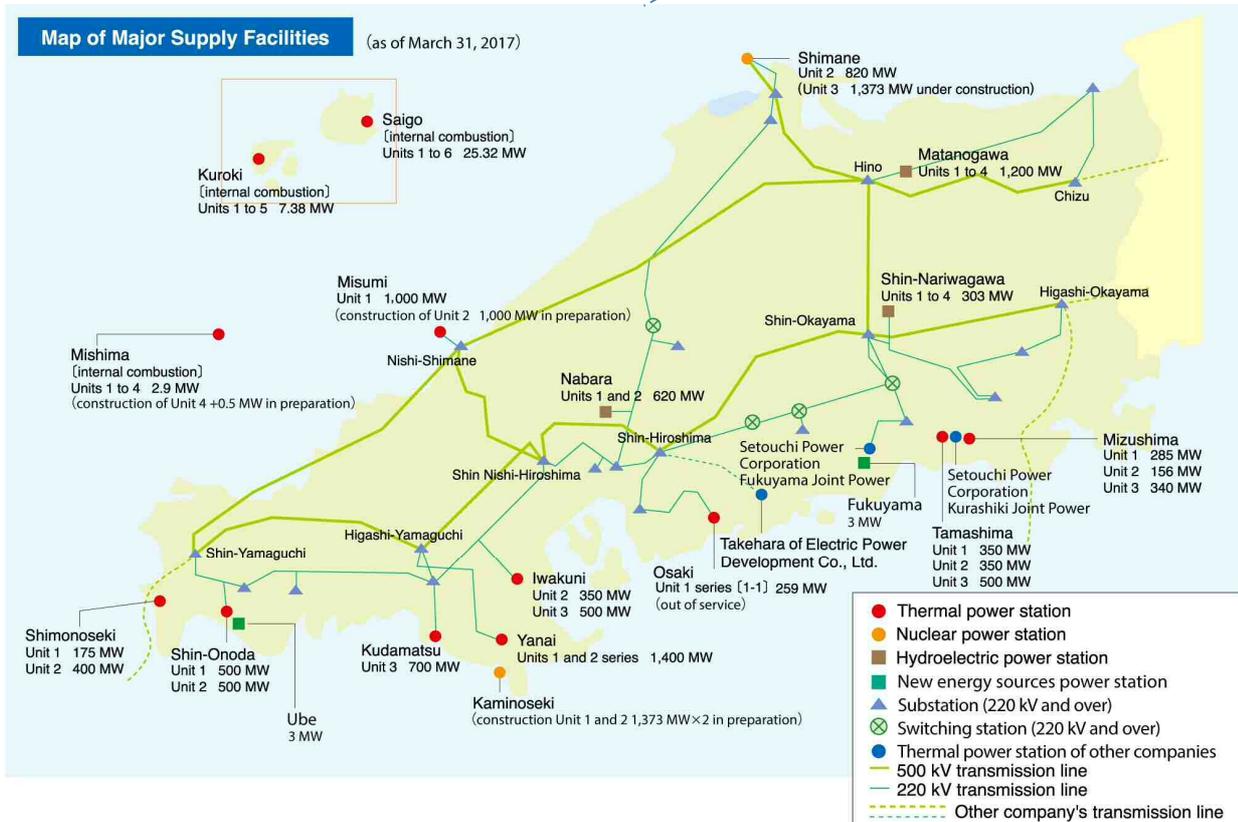
Corporate Data of The Chugoku Electric Power Co., Inc

(as of March 31, 2017)

■ Corporate name	The Chugoku Electric Power Co., Inc	
■ Head Office	4-33 Komachi, Naka-ku, Hiroshima 730-8701 Japan	
■ DATE established	May 1, 1951	
■ Paid-in capital	185.5 billion yen	
■ Common stock issued	371,055,259 stocks	
■ Number of employees	9,305	
■ Main supply facilities	Power stations and total output	
	114 stations	11,536 MW
	Thermal	12 stations 7,801 MW
	Hydroelectric	99 stations 2,910 MW
	Nuclear	1 stations 820 MW
	New energy sources	2 stations 6 MW
	Electric energy output (by own company and others, total)	
	66,686 GWh	
	Thermal	57,613 GWh
	Hydroelectric	4,885 GWh
	Nuclear	0 GWh
	New energy sources	4,188 GWh
■ Main business places	Regional Offices: 5 Sales Offices: 30	

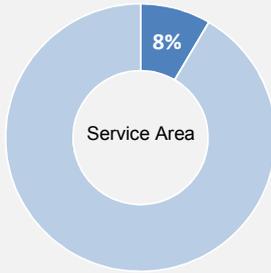


Map of Major Supply Facilities (as of March 31, 2017)

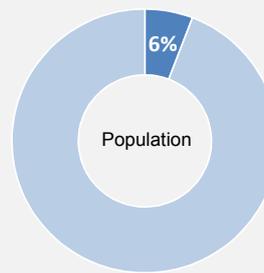


In this report, the term "Fiscal Year 2017" refers to the period which ended March 31, 2017. However, this does not apply to the referenced sources.

Characteristics of Chugoku Region



Source: "Statistical reports on the land area by prefectures and municipalities in Japan" (as of October 1, 2016)" by Geospatial Information Authority of Japan, Ministry of land, Infrastructure, Transport and Tourism.



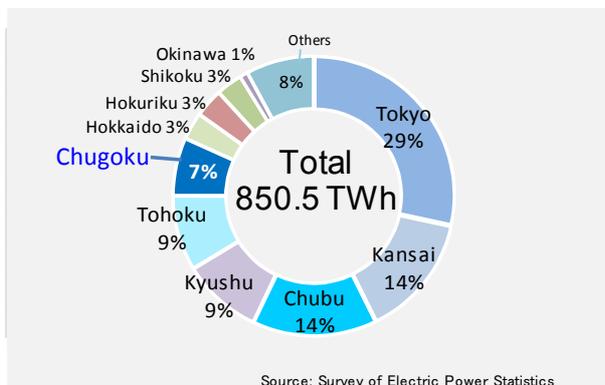
Source: "Population Estimates (as of October 1, 2016)" by Statistics Bureau, Ministry of International Affairs and Communications.



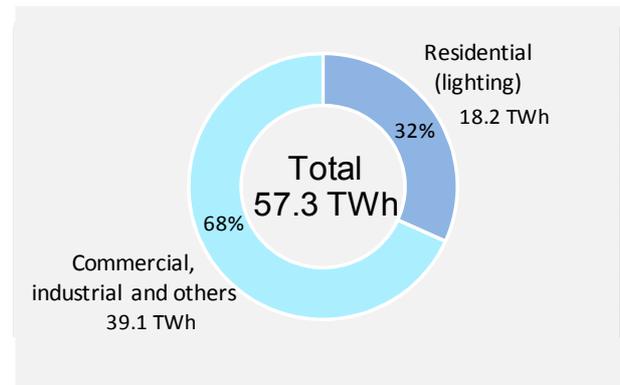
(millions of yen)
Source: "Annual Report on Prefectural Accounts for FY2014" by Economic and Social Research Institute, Cabinet Office, Government of Japan

Characteristics of Chugoku Electric

Electric Sales Share by company



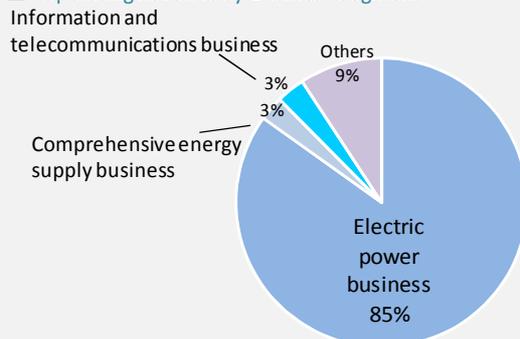
Electric Sales Volume by Demand Type



Operating revenues by Segment

In order to meet our customers' increasingly diverse needs, we are engaged in providing services leading to enhanced convenience and comfort for customers, primarily in the electric power business but also in other areas including comprehensive energy supply business and information and telecommunication business.

Operating Revenue by Business Segment



Segment	Operating Revenue (FY 2017)	Business content
Electric power business	1,100.7 billion yen	Electric power supply
Comprehensive energy supply business	35.4 billion yen	Fuel sales business, electricity and thermal energy supply business
Information and telecommunications business	41.2 billion yen	Telecommunications business, data processing business

"Others" includes business such as environmental harmony creation business / lifestyle support, and electric power business support.

Consolidated Financial Highlights

FY2017 Financial Results Summary

(1) Consolidated

(billion yen)

	FY2017 (A)	FY2016 (B)	Difference (A-B)	Rate of change (A/B-1)
Operating revenues	1,200.3	1,231.5	▲31.1	▲2.5%
Operating income	34.5	50.0	▲15.4	▲31.0%
Ordinary income	19.4	39.2	▲19.7	▲50.3%
Net income attributable to owners of the parent	11.3	27.1	▲15.7	▲58.2%

(Rounded down to the hundred million yen)

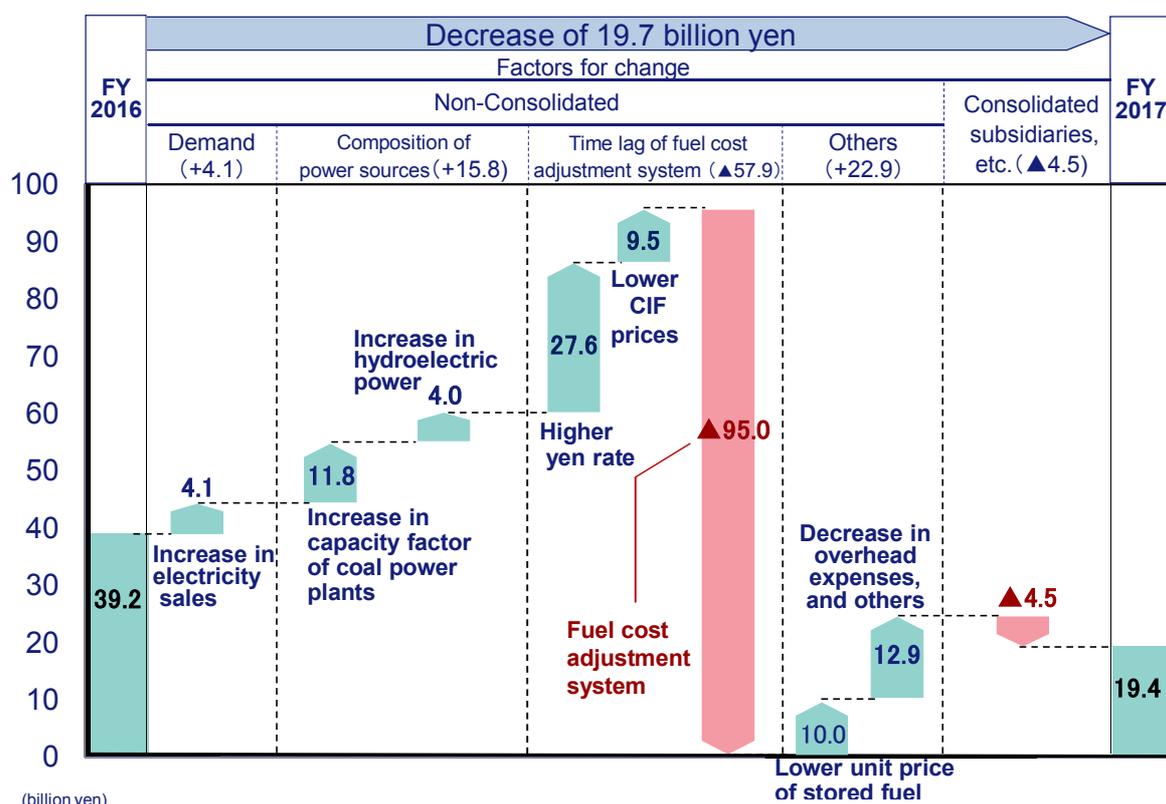
(2) Non-consolidated

(billion yen)

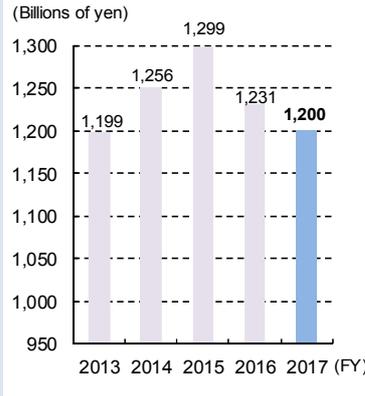
	FY2017 (A)	FY2016 (B)	Difference (A-B)	Rate of change (A/B-1)
Operating revenues	1,121.7	1,150.5	▲28.7	▲2.5%
Operating income	28.8	39.6	▲10.8	▲27.3%
Ordinary income	16.1	31.3	▲15.1	▲48.4%
Net income	14.6	21.0	▲6.3	▲30.2%

(Rounded down to the hundred million yen)

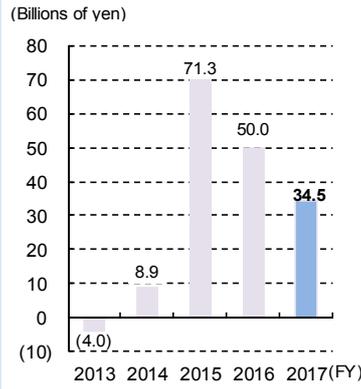
Factors for Change in Ordinary Income < Consolidated >



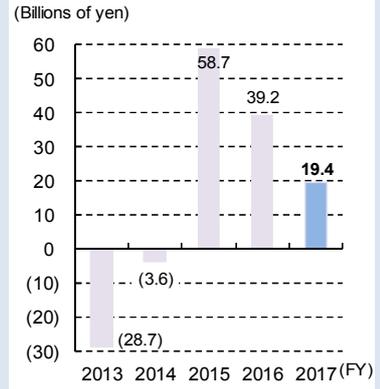
Operating revenues



Operating income(loss)



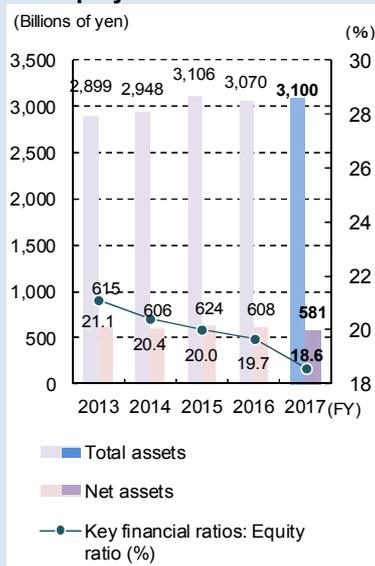
Ordinary income(loss)



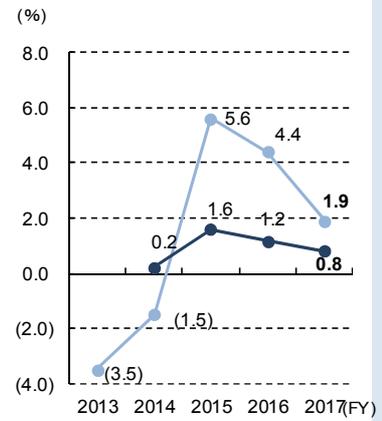
Profit (loss) attributable to owners of parent



Total assets, Net assets, Equity ratio

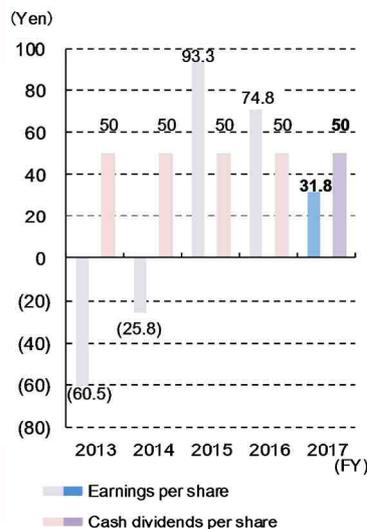


Return on equity, Return on asset

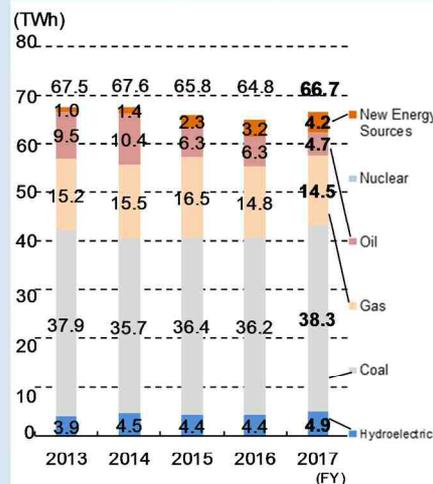


Note= ROA = Operating income × (1 - Income tax rate) / Total assets × 100.

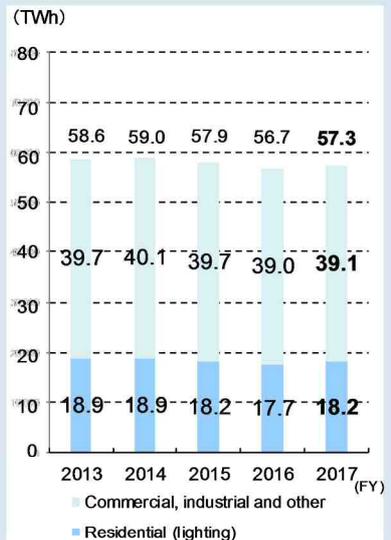
Earnings per share, Cash dividends per share



Power generated and received by Power source (by own company and others, total)



Electric sales



An Interview with President Mareshige Shimizu

As we stated in Energia Group Corporate Vision, we will be striving to be a “corporate group that people choose in the region and that grow beyond the region” in order to be able to meet our stockholders’ and investors’ expectations.



Q Currently in Japan, the Nuclear Regulation Authority (NRA) is proceeding with examinations of compliance with the new safety standards, which is a prerequisite for restarting operation at the nuclear power stations. How is the situation at Shimane Nuclear Power Station? What are the prospects for restart of operation over the near future?

A At our Shimane Nuclear Power Station, compliance examination of Unit 2 is in progress. I cannot forecast anything definite about when operation will restart. First of all we must get through the NRA’s examination, and we are making full efforts to accommodate it.

We have to go on providing the inexpensive and stable supply of electricity that underpins socioeconomic activities, and we have to restore the soundness of our corporate performance in fulfillment of our investors’ and stockholders’ expectations. We are conscious that in order to achieve those tasks, it will be essential to work at improving safety at our nuclear power station and to restart it at an early date. In order to restart this facility, I believe three things will be of major importance: we must get through the NRA’s examination, we must complete the measures required by the regulatory requirements, and we must obtain the understanding of the local people.

We applied for compliance verification of Unit 2 (commissioned 1989; 820 MW) in December 2013, and it is currently undergoing examination by the

Nuclear Regulation Authority. We believe that the determination of the standard earthquake ground motion* will be an important aspect in the examination.

I cannot say anything definite about specifically when operation will restart. But we are moving vigorously forward with measures for enhancing safety at the site, and I take it that we are making steady headway toward operation restart.

The advanced boiling water reactor (ABWR) to be employed as Unit 3 at Shimane Nuclear Power Station is a plant with outstanding safety and reliability that was developed jointly by the government, manufacturers and power companies. It will be a mainspring of competitiveness for us as competition under liberalization of the electric power business unfolds. The equipment itself is already complete, and the pre-use inspections carried out ahead of fuel loading have all ended. Currently we are proceeding with safety enhancement measures, and also with preparations for applying for compliance verification.

*The earthquake-induced tremor size that is used as the reference value for antiseismic design of facilities and equipment.

The local people’s understanding will also be essential in order to restart the nuclear power station and to make continuous use of it without any unscheduled stoppages. The following statements are made in the government’s Basic Energy Plan (approved by the Cabinet in April 2014).

(a) “When the Nuclear Regulation Authority deems that the regulatory requirements are complied with, nuclear power stations will move ahead with restart.”

(b) "The national government will proactively make efforts to obtain the understanding and cooperation of the local authorities and other concerned entities/persons where the power stations are sited."

At the same time that it is moving ahead with equipment-related efforts aimed at raising safety, Chugoku Electric is working to raise human-factor safety. It is doing this by, for example, effecting continual raising of employees' awareness and coping skills, in ways such as implementing drills that simulate the accidents occurred by many factors like fire or disease such as earthquakes and Tsunami. By giving the local people a series of respectful explanations about these efforts, we intend to progressively dispel their anxieties concerning the safety of nuclear power generation.

■ State of Shimane Nuclear Power Station

◆ Flow of Examinations Pertaining to Standard Ground Motions

Establishing the standard ground motions involves assessing the subsurface structures, "earthquake ground motion determined with identifying the hypocenter", and "earthquake ground motion determined without identifying the hypocenter", in the site, then selecting the ground motions that are to be envisioned as occurring at the power station.



◆ State of Safety Measure Works

We revised the scheduled completion date for safety measure works into as early as possible in FY2018.

< The reason for revision of the scheduled completion date >

Standard ground motions have not been set, and safety measure works currently being implemented must be handled carefully.



Installation of an emergency response facility
(As of April 2017)



Installation of a gas turbine generator
(As of April 2017)

Q The dividends of FY2018 are “undecided”, but could you tell us the forecasts at the present time regarding them?

A Although the dividends are “undecided”, we have no intention of revising our basic policy of continuing with a stable dividend of 50 yen per share over the year at the present time.

While there are fluctuations each fiscal year, we do believe that, barring any unforeseen sudden causes of revenue-expenditure deterioration such as stopping large-scale coal-fired thermal power, we can prevent any serious deficits. Restart of operations at the Shimane Nuclear Power Station remains an indispensable condition for stabilization of our business. We believe that our top priority is to focus on restarting operation of the Shimane Nuclear Power Station as soon as possible, and on achieving further efficiency improvement.

Regarding dividends, our basic approach is to continue with stable dividends, and we have been implementing dividends of 50 yen per share from an overall consideration of forecasts and so forth of the mid- and long-term revenue-expenditure and financial situations, not merely of the results for a single fiscal year.

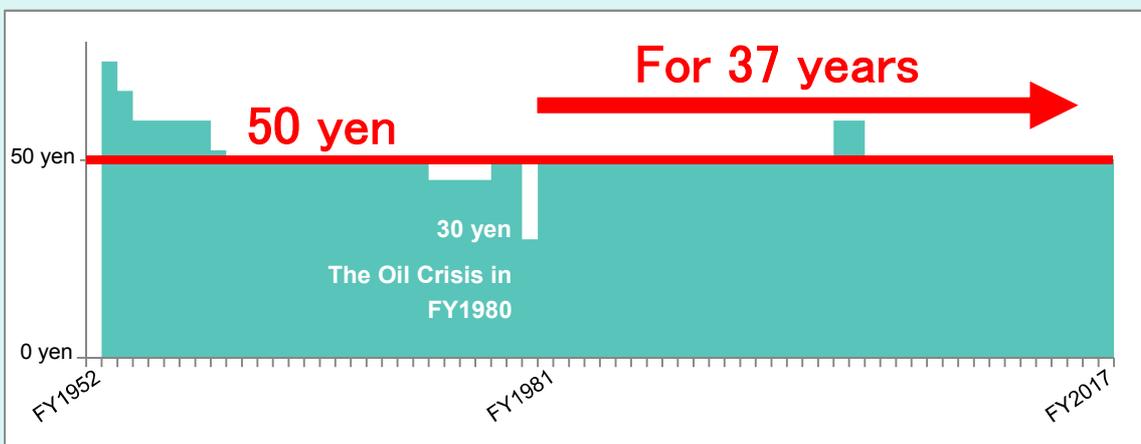
As things currently stand, we have sustained a considerably advanced degree of damage to our self-owned capital as a result of the protracted suspension of Shimane nuclear power generation operation, and as regards dividends up until our nuclear power generation restarts, we will be making particular decisions in each case, based on an examination of the revenue-expenditure and financial situations at the time. But we have no intention of revising our basic policy of continuing with stable dividends.

◆Dividends

We have continued stable dividends of ¥50 per share, based on our dividend policy “constant nominal payment”, in consideration of medium-and-long term viewpoint.

◆Dividend per Share

We have been implementing dividends of 50 yen or more per share since FY1981, for 37 years.



Q Electricity System Reform is underway in Japan, and a year has passed since the full liberalization of the retail sale of electricity started in April last year. How do you take this? Also, there are those in the capital markets who hold the opinion it will be a big risk for private businesses to continue running nuclear power stations under free competition– what are your thoughts on this?

A Although the competition is intense, our new menu of electricity rates and services are receiving solid approval from many customers. We will provide high value-added services so as to go on being chosen by the customers of the Chugoku Region, which is our operating base.

As for private businesses continuing to run nuclear power stations, we believe it will be indispensable to have in place an environment that gives them prospects for the future, so that they can plan and implement long-term operations. We will keep advocating that the requisite policies and measures should be devised.

Following the full liberalization of the retail sale of electricity, numerous operators have newly entered the Chugoku Region and the competition is intense. In these circumstances, we are receiving solid approval from many customers, as may be gathered from the fact that the number of subscribers to our members-only “Gutto Zutto Club” website and new “Gutto Zutto Plan” of tariffs exceeded 500,000 respectively by the end of March 2017.

The Energia group will provide high value-added services to meet diverse energy-related needs ranging from home to commercial, so as to go on being chosen by the customers of the Chugoku Region, which is our operating base.

At the same time, so that customers can enjoy advantages from liberalization, it will be necessary for the power supply-demand situation to be stable – which will require restart of nuclear power to proceed, among other things – and for a business

environment to be in place where, even under competition, nuclear power generation is utilized as an important base-load power source – on the major precondition that its safety is ensured.

In May 2016, as part of this business environment improvement and with a certain level of involvement by the government, laws were established for the purpose of stably securing funds necessary for nuclear fuel cycle operations, so that the operations could be carried out steadily and efficiently. In October 2016, the Nuclear Reprocessing Organization of Japan was established as the implementing body. The government has been reviewing the nuclear damage compensation system as well, including examining appropriate role-sharing between the government and businesses.

As for private businesses continuing to run nuclear power stations, we believe it will be indispensable to have in place an environment that gives them prospects for the future, so that they can plan and implement long-term operations. We will keep advocating that the requisite policies and measures should be devised.



Q What kind of concepts do you have for growth scenarios over mid- and long-term?

A First of all, we aim for an early restart of the Shimane Nuclear Power Station, and will strive to strengthen the competitiveness of our power sources by developing Misumi Power Station Unit 2. Also, by striving to increase earning capability through growth businesses in other regions of Japan and overseas, we aim to stably ensure profit levels above our pre-earthquake levels.

In January 2016, we announced the "Energia Group Corporate Vision", which describes our profit and financial targets for the future looking towards the 2020s.

First of all, we will make an all-out effort to accommodate the examination of the Shimane Nuclear Power Station in hopes of restarting Unit 2 early and proceeding steadily toward the commissioning of state-of-the-art Unit 3. In addition, we will strive to strengthen the competitiveness of our power sources, including developing Misumi Power Station Unit 2, a 1000 MW coal-fired thermal power plant.

Also, we are making efforts to increase the earning capability of the group by engaging in the establishment of revenue bases in other regions of Japan and overseas, including electricity sales businesses in the Greater Tokyo area and investing in a coal-fired power generation project in Malaysia.

Moreover, in April 2017, we established a new joint venture with JFE Steel Corporation with the objective of studying the development of a coal-fired thermal power plant in Chiba City.

Through these efforts, we hope to achieve the profit and financial targets stated in the Corporate Vision.

◆Trend in Capital Expenditures Sums

Amid an ongoing severe situation for revenues and expenditures, we have been implementing careful selection of necessary works and striving to reduce contracting and equipment/materials procurement costs, rationalize design and work implementation methods, and curb capital expenditures.

We intend to continue to move steadily ahead with the safety measure works necessary for stable resumption of our nuclear power, and alongside that to study new investments in growing fields, balancing the risks with the yields. Thus, for the time being, we expect that capital expenditures will remain at a high level.

■ Capital Expenditures

(Billions of yen)



■ Cash Flows

(Billions of yen)



Energia Group Corporate Vision

In January 2016, we announced the "Energia Group Corporate Vision", which describes our management policies for the future looking towards the 2020s.

We are steadily promoting efforts to achieve the Corporate Vision, and are aiming to be a "corporate group that people choose in the region and that grows beyond the region".

Corporate Group Image We Aim for as We Look at the 2020s

**A corporate group that people choose in the region
and that grows beyond the region**

- We will provide services with the highest customer satisfaction.
- We will achieve power source competitiveness on the top level in Japan.
- We will deliver an inexpensive, high-quality power transmission and distribution network service.
- We will establish a revenue base in other regions of Japan and overseas.
- We will contribute to solving issues and expanding our community through our business activities.

Profit / Financial Targets

- We will stably ensure profit levels above our pre-earthquake levels (consolidated ordinary income of 60 billion yen or more per year).
- As the financial base needed for a healthy business, first, we will ensure pre-earthquake levels (approx. 25% consolidated equity ratio).

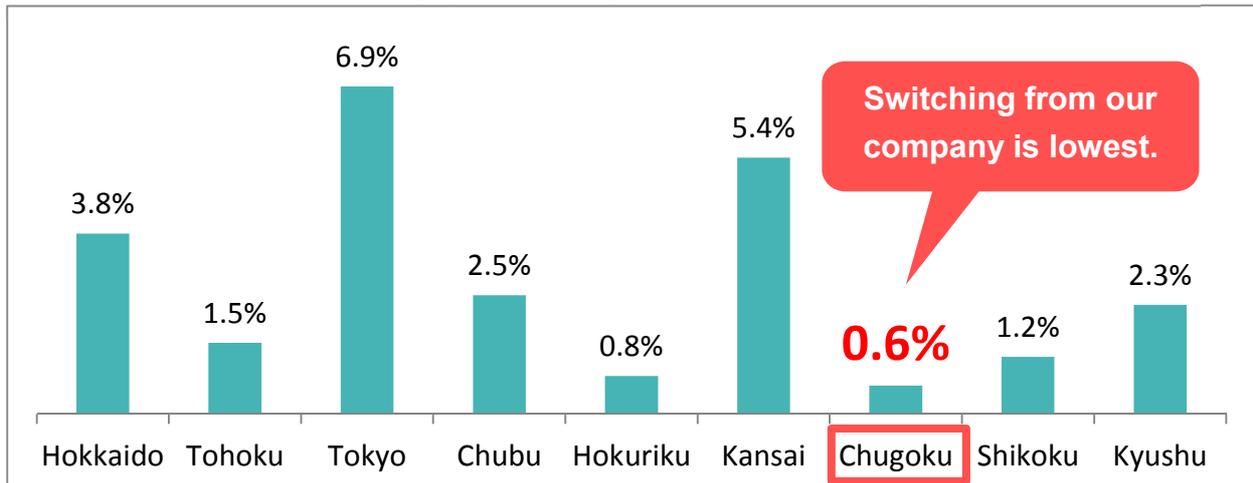
*We will aim to achieve this as early as possible in the 2020s.

Efforts to Achieve the Corporate Vision

Responses for Full Liberalization of the Retail Sale of Electricity

A year has passed since the full liberalization of the retail sale of electricity started in April 2016. Although the competition is intense, our new menu of electricity rates and services are receiving solid approval from many customers. We will provide high value-added services so as to go on being chosen by the customers of the Chugoku Region, which is our operating base.

◆ Share of New Electricity (Low voltage, as of March 2017)



Source: Electricity and Gas Market Surveillance Commission
Provisionally calculated in-house from the Electricity Transactions Report

Status of Shimane Nuclear Power Station

◆ Outline of Shimane Nuclear Power Station

We shut down Unit 1 at Shimane Nuclear Power Station and are taking various safety measures for its Units 2 and 3 in the light of new knowledge and insight gained from the accident at the Fukushima Daiichi Nuclear Power Station.

- Unit 1 was shut down on April 30, 2015. We obtain approval of a decommissioning plan in April 2017. We are proceeding responsibly with the utmost priority on ensuring safety.
- Regarding Unit 2, we applied in December 2013 for examination to verify its compliance with the new regulatory requirements, and examination of its earthquake/tsunami-related and equipment-related aspects is currently in progress. At the same time, we are taking required safety measures.
- Regarding Unit 3, we are proceeding with taking required safety measures, and with preparing for applying for compliance verification.



◆ Outline of the New Regulatory Requirements

Learning from the accident at the Tokyo Electric Power Company's Fukushima Daiichi Nuclear Power Station, "Defense-in-depth"^{*1} which is the fundamental ideology for nuclear power safety has been strengthened. The Nuclear Regulation Authority enacted new regulatory requirements for nuclear power station in July 2013.

The new regulatory requirements have stricter assumptions for earthquakes and tsunami, and newly require measures for volcanoes, tornados and interior overflowing^{*2}.

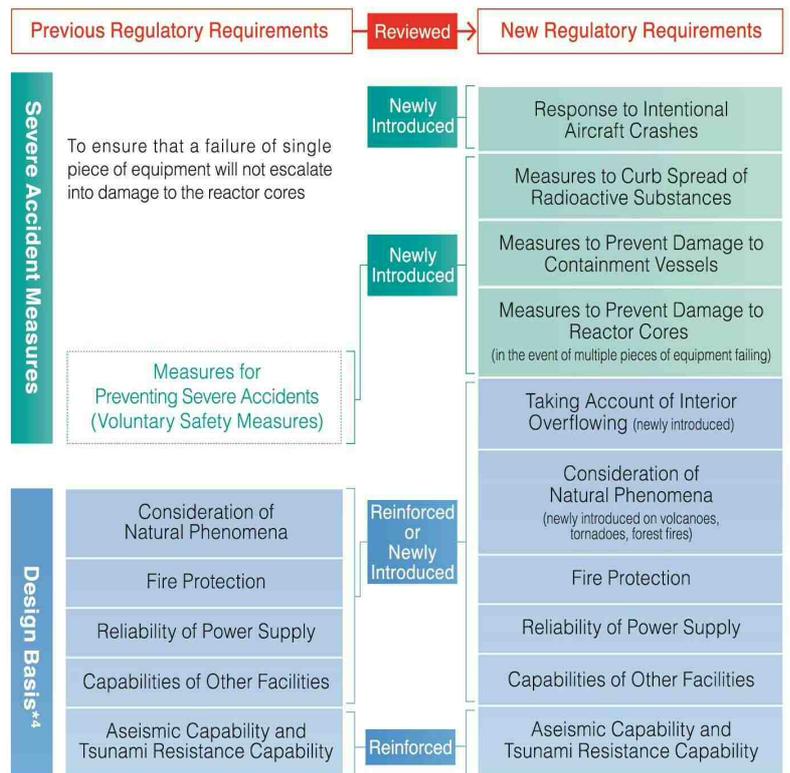
Countermeasures for a severe accidents^{*3} are now regulated, whereas previously they had been voluntary safety measures.

^{*1} Defense-in-depth: To adopt multilayered safety measures, however, when designing each safety measure, ensure that the purpose can be achieved with the relevant measure without relying on other measures.

^{*2} Interior overflowing: Water that flows into the building because of water leaks from damage of devices and piping in the power station buildings or activation of fire extinguishing equipment.

^{*3} Severe accident: Phenomenon in which nuclear reactor is subject to serious damage.

^{*4} Design basis: Standards for preventing severe accidents



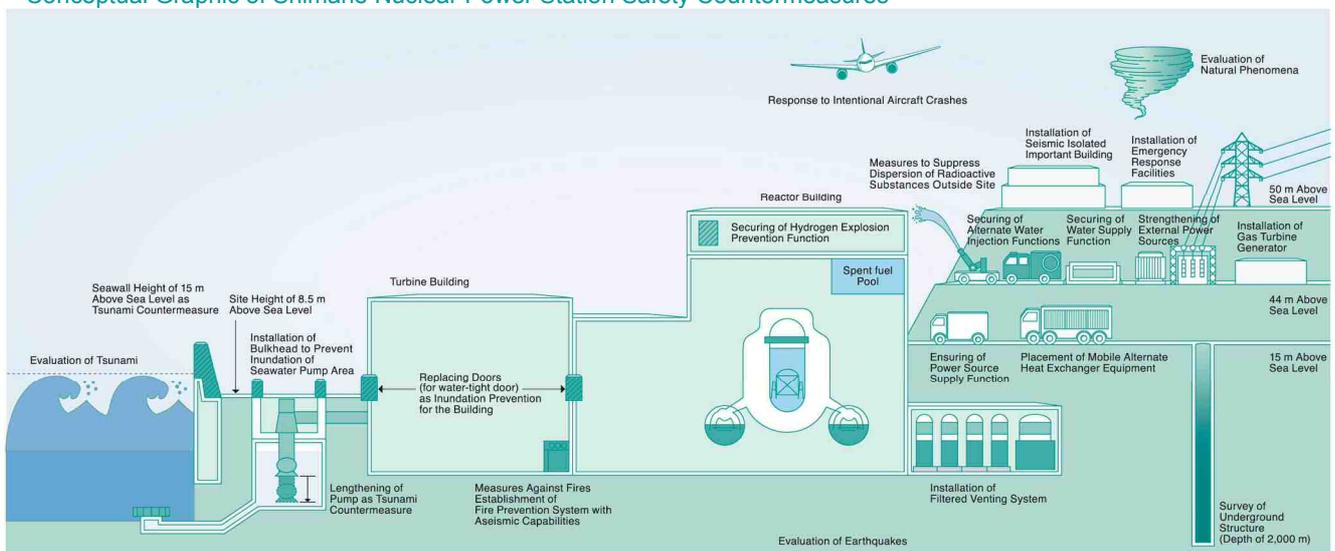
Source: Nuclear Regulation Authority

◆ Main Safety Measures at Shimane Nuclear Power Station

At the Shimane Nuclear Power Station, including Unit 3 under construction, we are considering the multiplicity and diversity of measures to ensure safety with the strong determination that we will never have a similar accident. Our safety measures center on "measures to prevent severe accidents" and "measures in the event that a severe accident occurs".

Currently, we are also carrying out construction to improve the safety of the power station.

Conceptual Graphic of Shimane Nuclear Power Station Safety Countermeasures

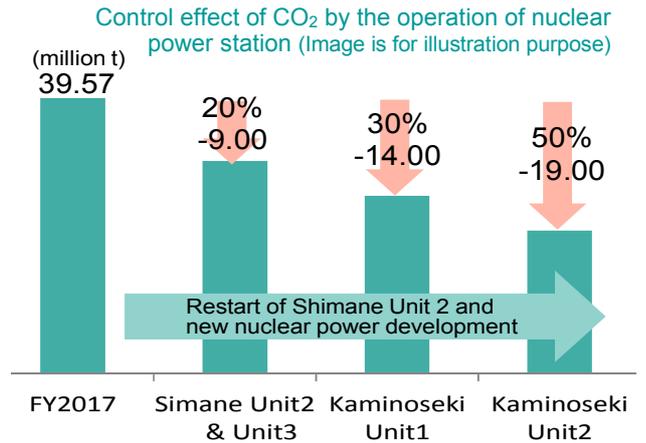


Formation of Environmentally-friendly Equipment

We take coping with an issue of global warming as an important task. Along with efforts to expand the usage of non-fossil fuel energy such as nuclear power and renewable energy, we also strive to more efficiently use our fossil fuel energy, such as by using the best technology economically usable in our newly-developed thermal power station.

◆ Nuclear Power Generation

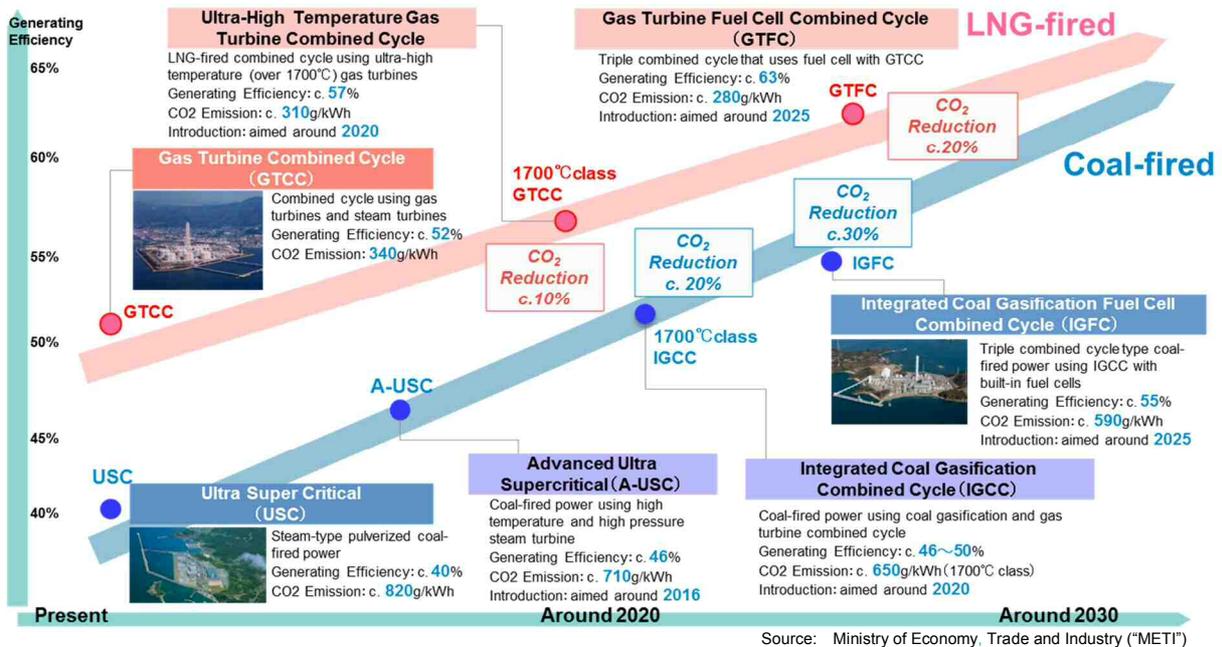
The operation of nuclear power station is highly effective to saving valuable fossil fuel and emission reductions of CO₂.



◆ Thermal Power Generation

➤ National Technical Roadmap for Next-generation Thermal Power Stations

The nation is promoting higher efficiency for thermal power stations.



➤ Misumi Power Station Unit 2 (Coal)

By adopting the most advanced power generation method (USC*1) corresponding to the best available technology (BAT*2), and by applying knowledge gained from operating Misumi Unit 1, we have developed plans for power generation facilities having superior environmental qualities, operation reliability, and economy.



*1 Ultra Super Critical

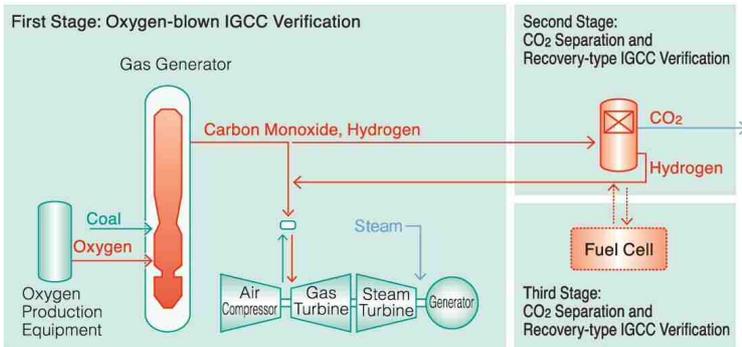
*2 Best Available Technology

Name	Misumi Power Station Unit 2
Address	1810 Okami, Misumi-cho, Hamada City, Shimane Prefecture
Output	1,000 MW
Electricity generating system	Ultra Super Critical
Fuels used	Coal
Schedule	Work starting: November 2018 Operation starting: November 2022

➤ **The Integrated Gasification Fuel Cell (IGFC)**

Coal-fired thermal power provides superior supply stability and economy, and Chugoku Electric is engaged in developing technology that will contribute to high efficiency and cleanness levels for this energy form, so that it can be utilized long into the future.

Aiming for the Integrated Gasification Fuel Cell (IGFC)*1, the ultimate high-efficiency coal-fired thermal power generation technology, which drastically reduces CO₂, we started demonstration tests with an Oxygen-blown Integrated Gasification Combined Cycle (Oxygen-blown IGCC)*2, which is the fundamental technology for IGFC, in March 2017.



*1 A form of cycle power generation technology that combines fuel cells with IGCC to further improve generating efficiency.

*2 Technology whereby oxygen is used to gasify coal, yielding a product gas with H₂ and CO as main constituents, which is used to drive gas turbines alongside steam turbines in combined cycle generation.

View of the Demonstration Test Plant



Testing location	Inside Osaki Power Station site
Output	166 MW
Testing scheduled to commence	March 2017

◆ **Efforts to Expand Introduction of Renewable Energy**

We are working as a united group to expand introduction of renewable energy.

➤ **Mega Solar Power**

We are operating mega solar power station in Fukuyama City, Hiroshima Prefecture and Ube City, Yamaguchi Prefecture.

Name	Fukuyama Photovoltaic Power Station	Ube Photovoltaic Power Station
Address	Minooki-cho, Fukuyama City, Hiroshima Prefecture (Company premises)	Nishiokinoyama, Ube City, Yamaguchi Prefecture (Company premises)
Output	3 MW	3 MW
Power generation	Approx. 3,680,000 kWh / year Equivalent to the annual usage for approx. 1,000 general households	Approx. 3,520,000 kWh / year Equivalent to the annual usage for approx. 900 general households
Reduction of CO ₂ emission	approx. 2,100 t-CO ₂ / year	approx. 2,000 t-CO ₂ / year
Start of operation	December 2011	December 2014

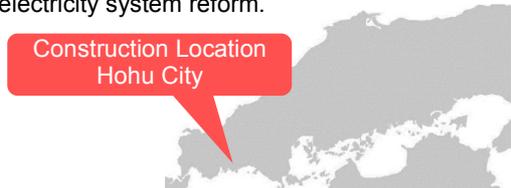
Ube Photovoltaic Power Station



➤ **Biomass Power Generation**

We are proceeding with construction on a biomass and coal mixed-fuel power station.

Along with contributing to the expansion and spread of renewable energy through biomass power generation, we believe it will contribute to expanding profitability in the business environment following the liberalization of the retail sale of electricity and the electricity system reform.

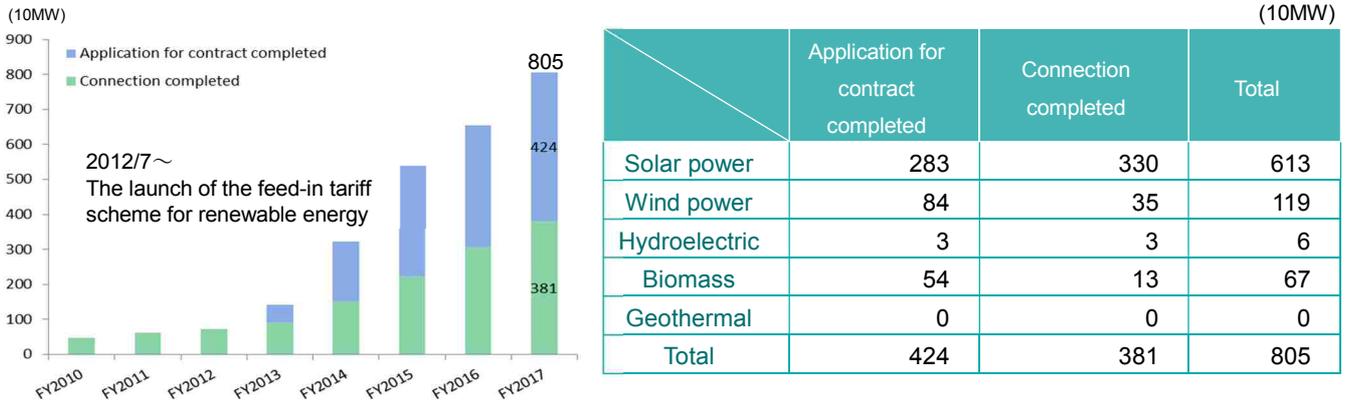


Name	AIR WATER & ENERGIA POWER YAMAGUCHI CORPORATION
Address	3-1, Kanebo-cho, Hoku City, Yamaguchi Prefecture (Inside Hofu plant)
Output	100 MW
Electricity generating system	Circulating Fluidized Bed
Fuels used	Woody biomass (including domestic materials primarily procured from Yamaguchi Prefecture), Coal
Schedule	Work starting: June 2017 Operation starting: June 2019
Investment ratio	AIR WATER 51%, Chugoku Electric 49%

➤ Purchasing Power from Renewable Energy

In order to contribute to an expansion of renewable energy, we purchase electricity generated by solar power and wind power. Latest application status can be found at: <http://www.energia.co.jp/elec/seido/kaitori/moshikomi.html>

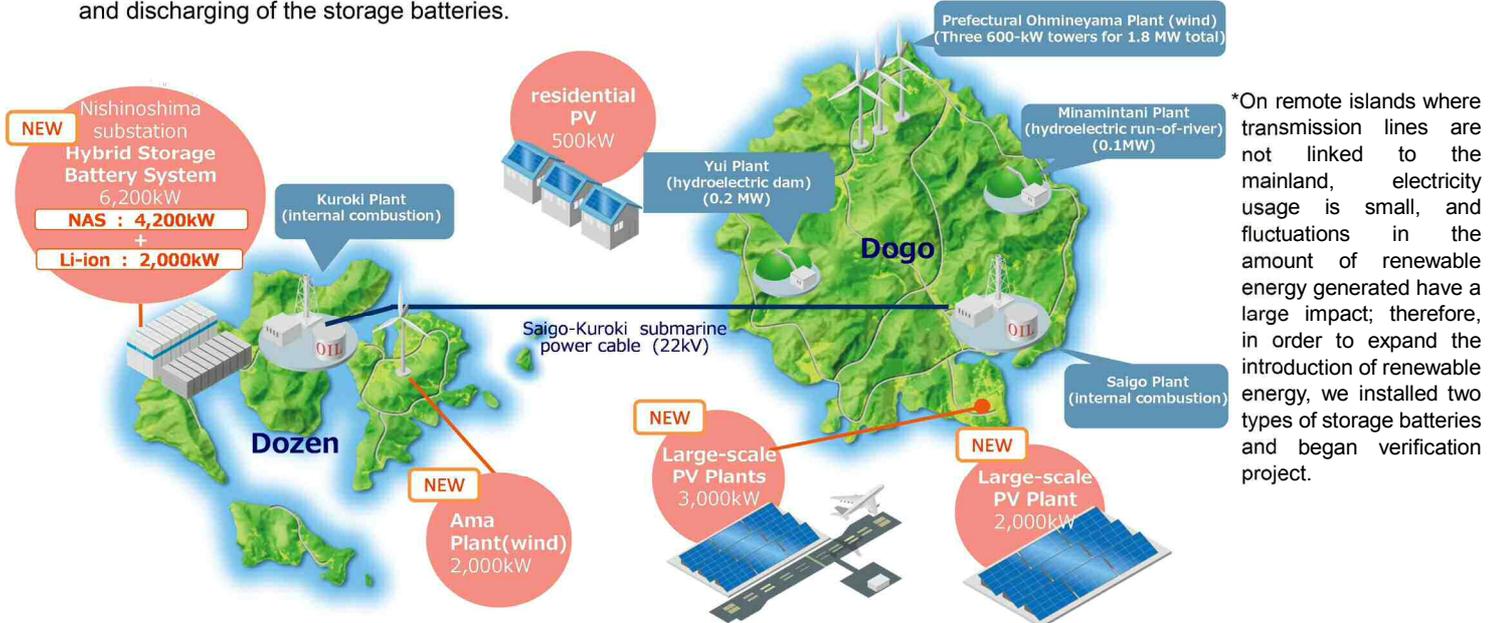
Installation of Renewable Energy Facilities (As of March 31, 2017)



➤ Demonstration Project Utilizing Hybrid Storage Battery System in the Oki-islands

To further penetration of renewable energy, we constructed a hybrid power storage system that combines two types of storage batteries, and started operation in September, 2015 in the Oki islands, as the first challenge in Japan.

From the end of September 2015 to March 2019, we verify the technology to manage and control efficient charging and discharging of the storage batteries.



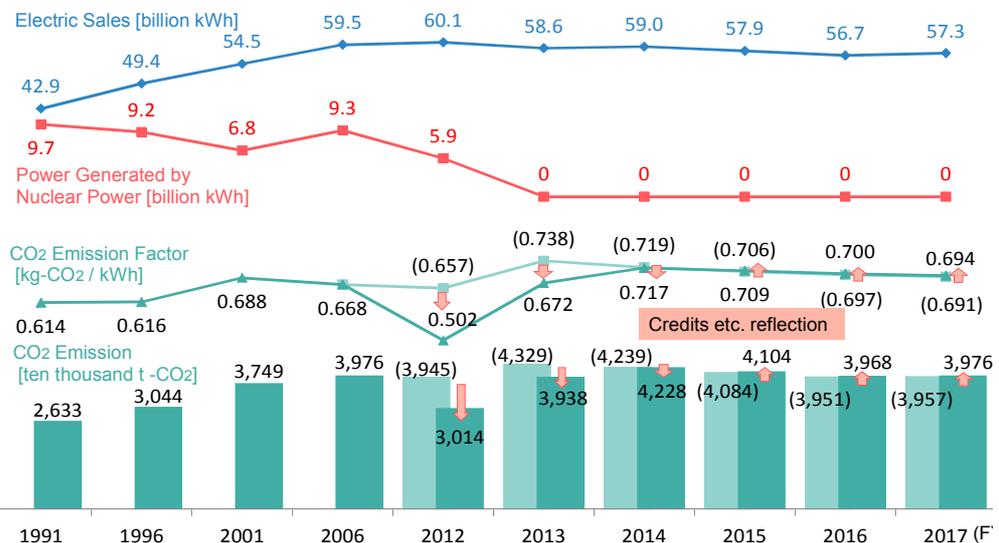
➤ CO₂ Emissions and Emission Factors

Calculated from the "Calculation and announcement of actual emissions coefficients and adjusted emissions coefficients by electricity utility" announced by the nation based on the Act on Promotion of Global Warming Countermeasures (hereinafter, "Global Warming Act").

Reflects adjustments involved in FIT (from FY2013) and CO₂ emissions credits (to FY2016) based on the Global Warming Act. The parentheses indicate values before reflection (emissions and emission factors before adjustment).

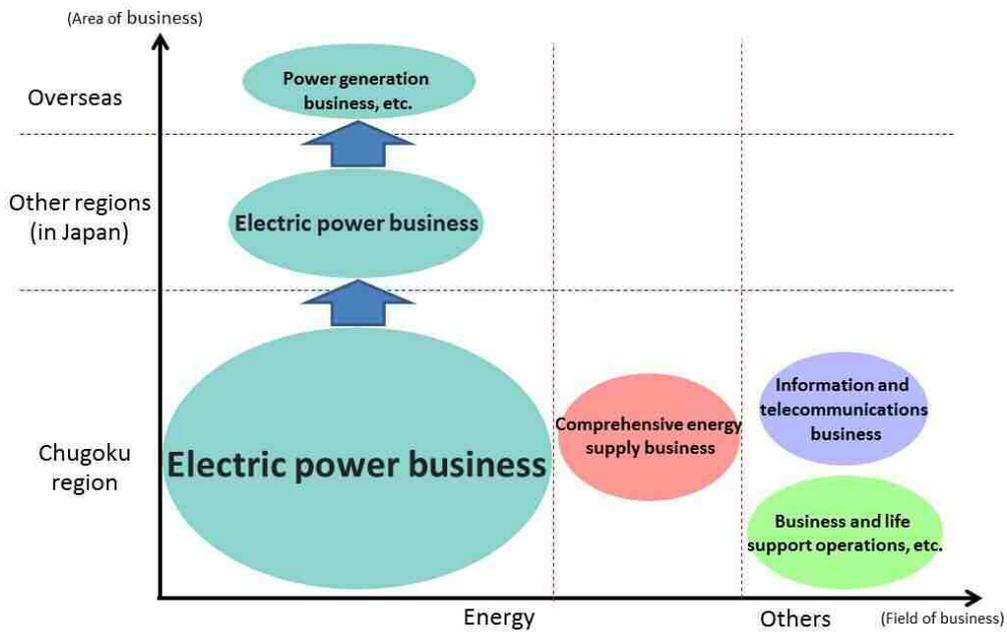
From FY 2014 and thereafter, as the FIT adjustment amount exceeds the CO₂ emissions credit reflection amount, the unadjusted value is larger than the adjusted value.

The CO₂ emission factor for FY 2017 is a provisional value, and the official value will be announced by the nation. After FY2017, CO₂ emission factor doesn't include supply amount for remote islands. Electric sales and CO₂ emission include them.



Establish a Revenue Base in Other Regions and Overseas

We will cooperate with influential partners in Japan and overseas to establish a revenue base both in other regions of Japan and overseas, thus improving the base profitability of the group.



◆ Expansion of Electricity Sales Business in Other Regions in Japan

We have begun selling electricity to home customers in the Greater Tokyo area since April 2016. After electricity retailing in the Greater Tokyo area gets rolling, we will investigate expanding the business depending on its profitability and other factors.

➤ New Power Source Development In Other Regions In Japan

In cooperation with JFE Steel Corporation, we are proceeding with investigations to develop a coal-fired power station in Chiba City, Chiba Prefecture, and established Chiba Power Co., Ltd in April 2017.

We believe that, by using our company's know-how and JFE Steel Corporation's existing infrastructure, the development of power stations with outstanding supply stability and cost performance will further contribute to improving profitability in the business environment following the electricity system reform.



Name	Chiba Power Co., Ltd
Address	Kawasaki-cho, Chuo-ku, Chiba City, Chiba Prefecture JFE Steel Corporation, East Japan Works (Chiba District) premises
Output	1,000 MW
Electricity generating system	Ultra Super Critical
Fuels mainly used	Coal
Schedule	Work starting: 2020 Operation starting: 2024
Investment ratio	Chugoku Electric 73%, JFE Steel 27%

➤ Investment in Power Generating Business Overseas

We are assigning overseas generating projects to the growth-oriented projects aimed at the future growth and development of the Chugoku Electric Group, and invested in a coal-fired power generation project in Malaysia on March 2016. We have also dispatched employees from our company on-site since June of the same year.

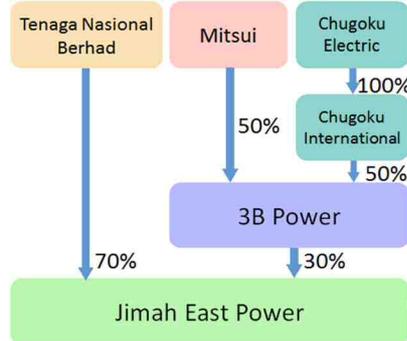
We maximize the usage of the accomplishments, experience and environmental technology the company has accumulated through the construction management and operation of coal-fired power plants in order to provide a stable supply of electricity in Malaysia and contribute to the realization of a low-carbon society.

We will continue implementing measures to strengthen our earning capacity by seeking out and actualizing other new foreign investment projects.

Project Overview

Installed Capacity	Ultra super critical (USC) coal-fired power generation 2,000MW (1,000MW · 2 units)
Start of operations	Unit No. 1: June 2019 Unit No. 2: December 2019
Offtaker and period	TNB (Malaysian electric power company) for 25 years
Total project cost	Approx. 12 billion MYR (Approx. 320 billion JPY)

Investment Scheme



Plant Location



➤ Establishment of Overseas Base

We are looking at the entire globe for areas to expand our overseas business. Given that half of the global electric power demand is predicted to lie in Asia in the future, we established our first representative office in Singapore in July 2016 as an overseas base. The function of the representative office is to conduct research in electric power generation markets, mainly in Asia.

Office Location (International Plaza)



Opening Ceremony



➤ Development of Overseas Consulting Business

Utilizing our knowledge of the electricity business cultivated up to now both in Japan and overseas, we plan to contribute to the electricity business overseas and develop our overseas consulting business, positioning it as a pioneering effort related to the overseas electricity generation business.

For example, for over ten years in Cambodia, we have fostered a trusting relationship by taking on consulting work, including consulting involving the revision of electric power master plans and development of small hydroelectric plants.

Consulting for Revision of Electric Power Development Master Plan (Cambodia)



Consulting for Development of Small-scale Hydropower plants (Cambodia)



Trend in Japan's Energy Policy

Deliberations toward revision of energy policy and the electricity business system have been ongoing in Japan since the occurrence of the Great East Japan Earthquake and Tokyo Electric Power Company's Fukushima Daiichi Nuclear Power Station accident in March 2011.

Energy Mix

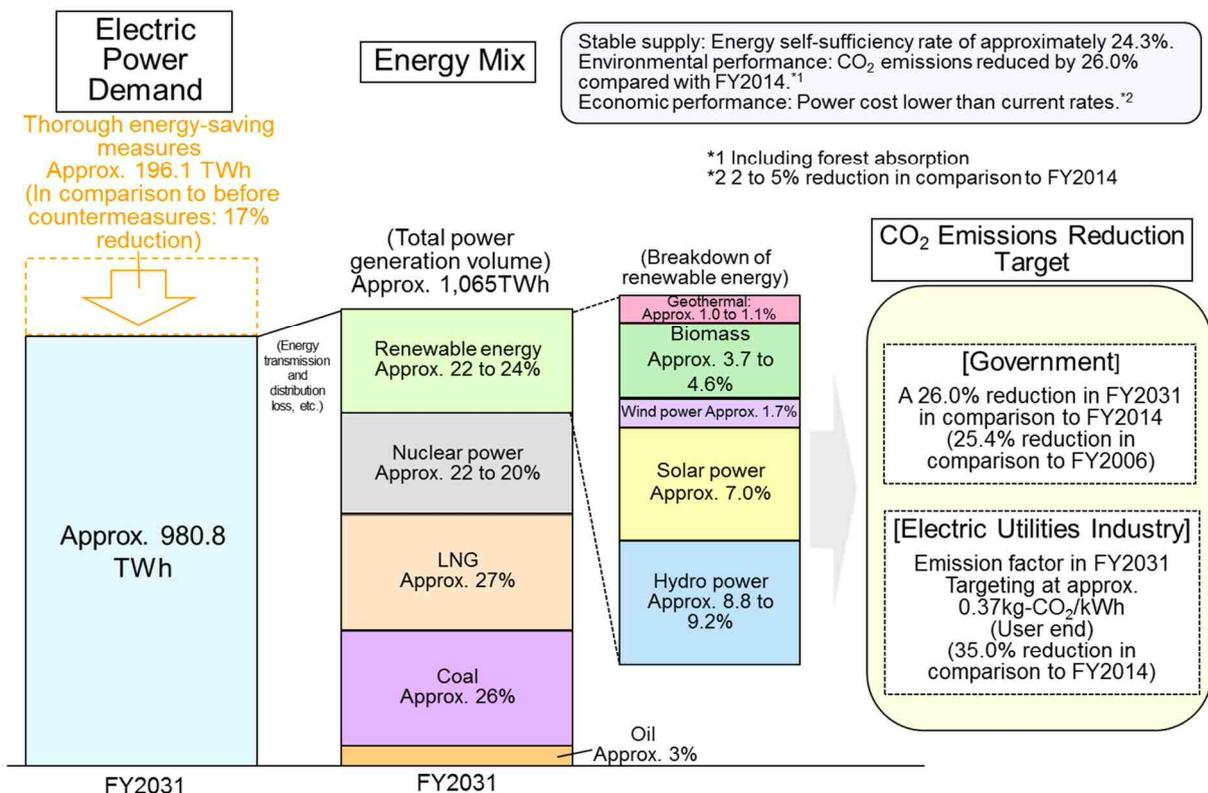
Pursuant to the Basic Act on Energy Policy enacted in June 2002, the Japanese government framed a Basic Energy Plan that puts together long-term, comprehensive and systematic policies concerning energy supply and demand. Under the said Act, the Plan's contents must be reviewed, and the Plan amended as necessary, once every three years.

In April 2014 the Cabinet approved the Fourth Basic Energy Plan. On the basis of an "S + 3 Es"* approach, this plan positions nuclear power generation as "an important base-load power source" contributing to the stability of the energy supply-demand structure, and moreover sets forth an orientation of accelerating the introduction of renewable energies. In July of this year, an energy mix for FY2031 has been put forward that is based on the roles of such energy source and is balanced so as not to depend excessively on any particular energy source.

In a form that conforms to this energy mix, Japan's overall CO2 emission control target was set as a "26% reduction in FY2031 compared to FY2014", and a target "aiming for an emission factor of approximately 0.37 kg-CO2/kWh in FY2031 (35.0% reduction compared to FY2014)" was set for electricity businesses, too, provided that the energy mix was achieved. Aiming to achieve the overall electricity business targets, each business is currently moving ahead with efforts.

*S + 3 Es: Activities, with Safety ("S") as over-arching precondition, that give first priority to the stable supply of energy (energy security, the first "E") and devote maximal efforts to achieving energy supply at low cost through raising of economic efficiency (second "E") while at the same time seeking environmental compliance (third "E").

◆ Energy Mix and CO2 Emissions Reduction Target (Decided by the cabinet in July 2015)



Electricity System Reform

Japan was using a system whereby 10 general electric utilities that have to carry out all the operations from power generation through to retail fulfilling the supply responsibilities in their defined supply areas. But given facts such as the electricity shortages in the aftermath of the Great East Japan Earthquake, there are held to be increased societal needs for “utilizing supply capacity across wider areas” and “letting people choose a power company of their own free will”. Accordingly, Electricity System Reform is now underway which will reform the electricity business system in three phases.

The first phase –“Expanding operations of wide-area electrical grids”– got underway in April 2015, when the “Organization for Cross-regional Coordination of Transmission Operators” commenced their duties. These bodies are to coordinate certain power supply-demand plans and operations across wide areas covering the electric power of various districts.

The second phase –“Full liberalization of the retail sale participation”– is scheduled to be implemented from April 2016 onward.

The third phase –“Legal separation of the power transmission/distribution sector”– is to be implemented by April 2020, as stipulated in the Electricity Business Act which passed the National Diet in June 2015.

In each phase of the Electricity System Reform, verification as to conformity with the government’s energy policy and as to the power supply-demand situation, etc., are to be conducted, and such measures as may be necessary are to be devised in line with the results of such verification and from the perspectives of competitive conditions, funding and so forth.

◆Outline and Schedule of Electricity System Reform



*1 ·Organization for Cross-regional Coordination of Transmission Operators : Independent organizations that centrally collect information on system users and coordinate supply-demand plans/operation across a wide area in their various regions.

*2 ·Expansion of the scope of liberalization to include low-voltage customers (homes, offices and so on), thus enabling all customers to select the business they purchase power from.

·Retail businesses will be obliged to ensure a supply capacity commensurate with their own demand.
·Businesses will be free to set their own rates, in principle. However, as a transitional measure to protect consumers, the supply obligation and rate regulation with regard to low-voltage customers will continue to be imposed on the general electric utilities.

*3 ·The Act prohibits general power transmission and distribution businesses, and power transmission businesses, from engaging in retail electricity business or electricity generation business.

·In order to ensure a fair competitive environment, the Act sets up conduct regulations that prohibit directors of a general power transmission and distribution business and power transmission businesses from serving concurrently as a director of an electricity generation business or retail electricity business in the same corporate group, or vice-versa.

Financial Section

Consolidated Five-Year Summary

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31

	Millions of yen					Thousands of
	2013	2014	2015	2016	2017	U.S. dollars (Note 1)
Operating revenues	¥1,199,727	¥1,256,054	¥1,299,624	¥1,231,572	¥1,200,379	\$10,717,676
Operating income (loss)	(4,005)	8,992	71,341	50,015	34,520	308,214
Profit (loss) attributable to owners of parent	(21,951)	(9,384)	33,852	27,113	11,341	101,263
Net assets	615,550	606,482	624,875	608,535	581,162	5,188,947
Total assets	2,899,334	2,948,019	3,106,275	3,070,948	3,100,754	27,685,305
Interest-bearing debt	1,812,396	1,857,935	1,980,196	1,950,374	2,053,281	18,332,868
Free cash flows (Note 2)	(37,333)	(23,980)	2,229	(46,715)	(51,775)	(462,283)
Other financial data						
Per share data (yen and dollars):						
Net assets (Note 3)	1,685.00	1,659.34	1,710.60	1,668.47	1,677.09	14.97
Earnings:						
Basic	(60.52)	(25.88)	93.38	74.83	31.84	0.28
Cash dividends	50.00	50.00	50.00	50.00	50.00	0.45
Key financial ratios:						
Equity ratio (%)	21.1	20.4	20.0	19.7	18.6	
Return on equity (ROE) (%)	(3.5)	(1.5)	5.6	4.4	1.9	
Return on assets (ROA) (%) (Note 4)	—	0.2	1.6	1.2	0.8	
Price earnings ratio (PER) (times) (Note 5)	—	—	16.8	20.3	38.7	

	Millions of kWh				
	2013	2014	2015	2016	2017
Power generated and received					
Generated:					
Hydroelectric	3,053	3,612	3,404	3,448	3,878
Thermal	40,662	39,797	38,769	36,612	35,867
Nuclear	—	—	—	—	—
New energy sources	5	5	6	8	8
Power interchanged and purchased (NET)	20,950	21,674	21,367	22,339	23,212
Power used for pumped storage (Note 6)	(685)	(690)	(431)	(630)	(750)
Total (Note 7)	63,984	64,396	63,114	61,778	62,216
Transmission loss	(5,337)	(5,416)	(5,246)	(5,059)	(4,962)
Total (Note 7)	58,647	58,980	57,868	56,719	57,254
Electric sales:					
Residential (lighting)	18,943	18,910	18,203	17,710	18,184
Commercial, industrial and other	39,704	40,070	39,665	39,009	39,070
Total	58,647	58,980	57,868	56,719	57,254

Notes: 1. U.S. dollar amounts above are given for the reader's convenience only and are converted from yen at ¥ 112 = US\$1.00, the exchange rate prevailing on March 31, 2017.

2. Free cash flows represent the net cash flows from operating activities and from investing activities.

3. Net assets per share is computed using the number of shares of common stock in issue at the end of each year.

4. ROA = Operating income × (1 – Income tax rate) / Total assets × 100. ROA for the fiscal year ended March 2013 is not given because an operating loss was recorded for that year.

5. PER for the fiscal years ended March 2013 and 2014 is not given because losses attributable to the owners of the parent were recorded for those years.

6. Power used for pumped storage is the electric power used to pump water for reservoir operations at pumped-storage power stations.

7. For electric energy information, the sum of the individual amounts may not match the totals due to the rounding of numerical values.

Consolidated Financial Review

Summary of Operations

- In the consolidated fiscal year ended March 31, 2017, the Japanese economy continued to show improvement in the employment and income environment as consumer spending remained steady. However, because of factors such as the rising economic uncertainty abroad and a stronger yen, exports in the first half of the fiscal year declined and production was sluggish. Therefore, the economy was limited to a moderate recovery. The situation in the Chugoku region was similar to the rest of the country.
- Consolidated sales of electricity increased by 0.9% from the previous fiscal year to 57.3 billion kilowatt hours.
- Operating revenues of the Chugoku Electric Power Co., Inc. ("the Company") and its consolidated subsidiaries (together with the Company, "the Companies") for the fiscal year were ¥1,200.3 billion (US\$10,717.6 million), a decrease of 2.5%, or ¥31.1 billion (US\$278.5 million), from fiscal 2016. Profit attributable to the owners of the parent for the fiscal year was ¥11.3 billion (US\$101.2 million), a decrease of ¥15.7 billion (US\$140.8 million). Free cash flow (net cash provided by operating activities minus net cash used in investing activities) amounted to an outflow of ¥51.7 billion (US\$462.2 million).
- The Company maintained cash dividends per share at ¥50.00 (US\$0.45).

Operating Revenues

- Operating revenues for the fiscal year were ¥1,200.3 billion (US\$10,717.6 million), a decrease of 2.5%, or ¥31.1 billion (US\$278.5 million).
- Operating revenues from electric power operations amounted to ¥1,096.7 billion (US\$9,792.1 million), a decrease of 1.5%, or ¥16.9 billion (US\$151.0 million).
- Operating revenues from other operations such as the comprehensive energy supply business and the information and telecommunication business decreased by 12.1%, or ¥14.2 billion (US\$127.4 million), to ¥103.6 billion (US\$925.5 million).

Operating Expenses and Operating Income

- Operating expenses for the fiscal year were ¥1,165.8 billion (US\$10,409.4 million), a decrease of 1.3%, or ¥15.6 billion (US\$140.1 million).
- Despite increases in "Feed-in Tariff Scheme for Renewable Energy" payments, operating expenses in the electric power business decreased by 0.5%, or ¥5.6 billion (US\$50.0 million), to ¥1,065.2 billion (US\$9,511.5 million). This decrease resulted partly from efforts to improve operational efficiency across the board and from a decrease in raw material costs due to a drop in fuel prices.
- In operations other than electric power operations, operating expenses were ¥100.5 billion (US\$897.9 million), a decrease of 9.1%, or ¥10.0 billion (US\$90.0 million).
- Operating income was ¥34.5 billion (US\$308.2 million), a decrease of ¥15.4 billion (US\$138.3 million).

Other Expenses (Income), Profit (Loss) Before Income Taxes and Profit (Loss) Attributable to Owners of Parent

- Total other expenses (income) increased by 233.8%, or ¥10.5 billion (US\$93.9 million), to ¥15.0 billion (US\$134.1 million).
- As a result of applying the reserve for fluctuation in water levels and the provision for depreciation of nuclear power plants, profit before income taxes was ¥15.9 billion (US\$142.0 million), a decrease of ¥25.5 billion (US\$228.0 million). Profit attributable to the owners of the parent was ¥11.3 billion (US\$101.2 million), a decrease of ¥15.7 billion (US\$140.8 million).
- Earnings per share fell to ¥31.84 (US\$0.28) from ¥74.83 in the previous fiscal year.

Financial Position

Assets

- At fiscal year-end, total assets were ¥3,100.7 billion (US\$27,685.3 million), an increase of 1.0%, or ¥29.8 billion (US\$266.1 million), from the close of the previous term due to an increase in construction in progress resulting from efforts such as the safety improvement construction at the Shimane Nuclear Power Station, even though there was a drawdown of funds reserved for the reprocessing of irradiated nuclear fuel.
- Fixed assets were ¥2,216.1 billion (US\$19,786.9 million), a rise of 1.6%, or ¥35.8 billion (US\$319.6 million).
- Nuclear fuel was ¥147.4 billion (US \$1,316.8 million), a decrease of 7.0%, or ¥11.0 billion (US \$99.0 million).
- Total investments and other assets were ¥393.0 billion (US\$3,509.5 million), a decrease of 4.9%, or ¥20.3 billion (US\$182.1 million).
- Total current assets were ¥344.0 billion (US\$3,071.9 million), a rise of 8.0%, or ¥25.4 billion (US\$227.6 million).

Liabilities, Non-controlling Interests and Net Assets

- Total liabilities were ¥2,519.5 billion (US\$22,496.3 million), a rise of 2.3%, or ¥57.1 billion (US\$510.5 million), due to an increase in interest-bearing debt, etc., even though there was a drawdown of the provision for the reprocessing of irradiated nuclear fuel. Interest-bearing debt increased by 5.3%, or ¥102.9 billion (US\$918.8 million), to ¥2,053.2 billion (US\$18,332.8 million). Other liabilities decreased by 8.9%, or ¥45.7 billion (US\$408.2 million), to ¥466.3 billion (US\$4,163.4 million).
- Total net assets were ¥581.1 billion (US\$5,188.9 million), a decrease of 4.5%, or ¥27.3 billion (US\$244.4 million). Although there was an allocation of profit attributable to the owners of the parent, other factors, including the acquisition of treasury stock and payment of dividends, caused the total to decrease. The equity ratio declined 1.1 percentage points to 18.6% from 19.7%.

Cash Flows

- Net cash provided by operating activities was ¥96.0 billion (US\$857.1 million), a decrease of 35.1%, or ¥51.9 billion (US\$463.6 million), due to a decrease in profit before income taxes, among other factors.
- Net cash used in investing activities was ¥147.7 billion (US\$1,319.4 million), a decrease of 24.1%, or ¥46.8 billion (US\$418.4 million), due to a decrease in equipment investment and other factors.
- Free cash flow, therefore, amounted to an expenditure of ¥51.7 billion (US\$462.2 million).
- Net cash provided by financing activities was ¥58.6 billion (US\$523.4 million), a rise of ¥109.6 billion (US\$979.0 million) from a negative balance of ¥51.0 billion in the previous year. With procurements exceeding repayments, bonds and long-term borrowings increased ¥99.7 billion (US\$890.9 million). Cash dividends paid were ¥18.1 billion (US\$161.8 million).
- Cash and cash equivalents at end of the fiscal year totaled ¥100.2 billion (US\$894.8 million), a rise of ¥6.7 billion (US\$60.2 million) over the total at the end of the previous year.

Summary of Cash Flows

Years ended March 31	Millions of yen		Thousands of US dollars
	2017	2016	2017
Net cash provided by (used in) operating activities	¥96,003	¥147,933	\$857,172
Net cash provided by (used in) investing activities	(147,779)	(194,648)	(1,319,455)
Net cash provided by (used in) financing activities	58,630	(51,023)	523,486
Effect of exchange rate changes on cash and cash equivalents	(106)	(379)	(951)
Net increase (decrease) in cash and cash equivalents	6,748	(98,118)	60,251
Cash and cash equivalents at beginning of the fiscal year	93,475	191,594	834,601
Cash and cash equivalents at end of the fiscal year	¥100,223	¥93,475	\$894,852

Risk Factors

The following primary risk factors to which the Companies are subject may exert a significant influence on investor decisions. The Companies recognize these risk factors and will try to assess and manage those risks. The forward-looking statements included below represent estimates as of March 31, 2017.

1. Revision of systems pertaining to nuclear power generation

We are continuously taking steps to enhance safety, not only comply with the new regulatory standards enacted in July 2013. These steps include countermeasures against earthquakes and tsunamis, measures to assure reliability of external power sources and measures to deal with severe accidents, including the installation of filtered vent equipment. These measures are being taken in response to the accident that occurred at the Fukushima Daiichi Nuclear Power Station. However, should the revision of policies and regulations pertaining to nuclear power take certain directions, the Companies' results and financial condition could be affected.

Although the back-end of the nuclear fuel cycle is a super-long-term business and involves uncertainties, the electric utilities' risks in this area have been alleviated by systemic measures taken by the nation. However, the Companies' results and financial condition could be affected in the future by revisions of the system, changes in the estimates of future sums or the operating status of the reprocessing plant.

2. Revision of policies and systems pertaining to electric power business

Full-scale liberalization of retail electricity has begun and the Electricity Business Act has been amended, providing measures to ensure further neutrality of the power transmission and power distribution sectors through a method of legal separation. It is possible that accompanying detailed system study and other reexamination of systems pertaining to the electric power business will affect the Companies' business results.

Also, it is possible that the Companies' business results will be affected by energy and environmental policies such as those pertaining to the FY 2031 energy mix and reductions in greenhouse gas emissions.

3. Natural disasters and other troubles

The Companies have substantial property, plant and equipment mainly for the electric power business. Natural disasters such as earthquakes and typhoons, illegal acts including terrorism and other troubles have the potential, by giving rise to costs pertaining to the recovery of facilities and procurement of alternative thermal power fuel, to affect the Companies' results and financial condition.

4. Business other than electric power

In addition to the electric power business, the Companies are engaged in the "comprehensive energy supply business," "information and telecommunications business," "environmental business," and "business and lifestyle support business." If these businesses do not grow as the Companies expect due to changes in the business environment or other factors, the Companies' business results may be affected.

5. Economic conditions in power supply area

The Company supplies electric power mainly in the five prefectures of the Chugoku region. Accordingly electricity sales are subject to the influence of regional economic conditions such as industrial activities in the power supply area. As a result, the economic conditions in the power supply area have the potential to affect the Companies' results and financial condition.

6. Seasonal variations in weather

Since electricity sales are subject to demand for air conditioning and heating, temperatures in the power supply area have the potential to affect the Companies' results and financial condition.

A decrease in the water flow rate could boost the Company's fuel costs through reduction in the Company's proportion of hydropower generation. Therefore, rainfall levels in the water resource areas have the potential to affect the Companies' results and financial condition.

7. Changes in fuel prices

Sources of fuel for the Company's thermal power generation include coal, liquefied natural gas (LNG) and heavy and crude oil. Therefore, fluctuations in energy prices, such as the price of coal, LNG and heavy and crude oil, and fluctuations in foreign exchange rates may affect the Companies' results and financial condition. However, the impact of these factors is considered limited because the Companies are trying to mitigate fuel price fluctuation risk by diversifying the energy mix and because the fluctuation in fuel prices and foreign exchange rates are reflected in electricity rates through the Fuel Cost Adjustment System.

8. Changes in financial markets

Future changes in interest rates or credit ratings resulting in changes in interest rates on borrowings have the potential to affect the Companies' results and financial condition. However, since most of the Companies' debt have been funded as long-term fixed-rate debt (i.e., bonds and loans), the impact of changes in interest rates on the Companies' results and financial condition is expected to be limited.

Also, the Companies' costs and liabilities for retirement benefits are accounted for based on assumptions for actuarial calculations such as the discount rate and the long-term expected rate of return on plan assets. Changes in the discount rate and the expected rate of return have the potential to affect the Companies' results and financial condition.

9. Compliance

The Companies give top priority to making progress with compliance in all business operations the foundation of management.

We strive for thorough compliance and take prompt corrective action for acts of non-compliance. Should a major case of non-compliance occur, however, there is a possibility that our social credibility would decline and affect the smooth operation of business.

10. Management of business information

The Companies maintain a large volume of business information on individuals including that of electric power customers. The Companies have established basic guidelines and other internal rules for information management and personal information protection. The Companies comply with these rules and rigorously administer all of this information through the promotion of information security measures. However, a lapse in administration of any of this information has the potential to affect the Companies' results and financial condition.

Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2017	2016	2017
Assets			
Property, plant and equipment:			
Utility plant and equipment	¥5,547,216	¥5,508,900	\$49,528,719
Other plant	329,923	311,105	2,945,741
Construction in progress	763,091	714,840	6,813,321
Suspense account related to the decommissioning of nuclear power stations	8,876	13,481	79,253
	6,649,107	6,548,328	59,367,035
Less			
Contributions in aid of construction	94,587	92,085	844,530
Accumulated depreciation	4,338,380	4,275,903	38,735,538
	4,432,967	4,367,988	39,580,068
Net property, plant and equipment (Note 6)	2,216,140	2,180,339	19,786,966
Nuclear fuel	147,485	158,576	1,316,833
Investments and other assets:			
Investment securities (Note 7 and 8)	78,131	75,450	697,601
Fund reserved reprocessing of irradiated nuclear fuel (Note 7)	—	46,057	—
Investments to non-consolidated subsidiaries and affiliated companies	117,022	119,036	1,044,848
Long-term loans to employees	93	121	830
Asset for retirement benefits (Note 14)	46,623	42,369	416,278
Deferred tax assets (Note 15)	62,586	66,627	558,804
Other assets	88,616	63,806	791,217
Total investments and other assets	393,073	413,470	3,509,581
Current assets:			
Cash and time deposits (Note 5 and 7)	65,233	133,485	582,442
Receivables, less allowance for doubtful accounts of ¥482 million (\$4,306 thousand) in 2017 and ¥586 million in 2016 (Note 7)	127,550	100,131	1,138,842
Short-term investment (Note 7)	65,000	—	580,357
Inventories, fuel and supplies	53,383	55,076	476,636
Deferred tax assets (Note 15)	9,996	9,454	89,251
Other current assets	22,892	20,413	204,395
Total current assets	344,055	318,561	3,071,924
Total assets	¥3,100,754	¥3,070,948	\$27,685,305

See Notes to Consolidated Financial Statements

Liabilities and Net Assets	Millions of yen		Thousands of U.S.dollars (Note 1)
	2017	2016	2017
Long-term liabilities:			
Long-term debt (Note 7 and 10)	¥1,693,779	¥1,627,222	\$15,123,034
Liability for retirement benefits (Note 14)	69,160	71,503	617,501
Retirement allowances for directors and corporate auditors	224	271	2,000
Provision for reprocessing of irradiated nuclear fuel	—	54,485	—
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	—	7,761	—
Asset retirement obligations (Note 16)	77,376	75,736	690,862
Other long-term liabilities	23,206	16,530	207,200
Total long-term liabilities	1,863,747	1,853,511	16,640,599
Current liabilities:			
Long-term debt due within one year (Note 7 and 10)	266,114	232,858	2,376,026
Short-term borrowings (Note 7)	69,245	71,305	618,258
Accounts payable (Note 7)	86,704	78,263	774,147
Accrued income taxes	232	14,917	2,071
Accrued expenses	69,184	64,451	617,716
Allowance for bonuses to directors and corporate auditors	61	66	545
Other current liabilities, including other long-term liabilities due within one year	82,733	69,046	738,690
Total current liabilities	574,275	530,910	5,127,456
Reserve for fluctuation in water levels	1,220	435	10,901
Provision for depreciation of nuclear power plants	80,348	77,555	717,400
Contingent liabilities (Note 12)			
Net assets (Note 17):			
Common stock :	185,527	185,527	1,656,496
Authorized - 1,000,000,000 shares			
Issued - 371,055,259 shares in 2017 and 2016			
Capital surplus	17,068	17,103	152,393
Retained earnings (Note 19)	387,088	393,859	3,456,150
Treasury stock (26,786,189 shares in 2017 and 8,828,716 shares in 2016)	(38,739)	(15,169)	(345,889)
Total stockholders' equity	550,944	581,320	4,919,151
Net unrealized holding gains (losses) on securities	22,809	20,448	203,658
Net unrealized gains (losses) on hedges	(247)	(448)	(2,208)
Foreign currency translation adjustments	(305)	(304)	(2,723)
Accumulated adjustments for retirement benefit	4,168	3,347	37,217
Accumulated other comprehensive income	26,425	23,043	235,944
Non-controlling interests (Note 3)	3,791	4,170	33,852
Total net assets	581,162	608,535	5,188,947
Total liabilities and net assets	¥3,100,754	¥3,070,948	\$27,685,305

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit (loss) (Note 3)	¥10,948	¥26,942	\$97,755
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on securities	2,218	(7,239)	19,812
Net unrealized gains (losses) on hedges	200	(278)	1,791
Foreign currency translation adjustments	13	(478)	123
Adjustments for retirement benefit	549	(13,680)	4,907
Share of other comprehensive income (loss) of affiliated companies accounted for using equity method	428	(2,596)	3,827
	3,411	(24,273)	30,462
Comprehensive income (loss)	¥14,360	¥2,669	\$128,217
Comprehensive income (loss) attributable to:			
Comprehensive income (loss) attributable to owners of parent	¥14,723	¥2,999	\$131,462
Comprehensive income (loss) attributable to non-controlling interests	(363)	(330)	(3,244)

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen										
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at April 1, 2015	371,055,259	¥185,527	¥17,270	¥384,864	¥(14,932)	¥29,382	¥(169)	¥174	¥17,771	¥4,987	¥624,875
Profit attributable to owners of parent (Note 3)				27,113							27,113
Cash dividends paid (¥ 50 per share)				(18,118)							(18,118)
Surplus from sale of treasury stock			(0)		3						3
Treasury stock purchased, net					(235)						(235)
Change in scope of equity method											—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)			(183)								(183)
Other			16		(4)						11
Net changes other than stockholders' equity						(8,933)	(278)	(478)	(14,424)	(816)	(24,931)
Balance at March 31, 2016	371,055,259	¥185,527	¥17,103	¥393,859	¥(15,169)	¥20,448	¥(448)	¥(304)	¥3,347	¥4,170	¥608,535
Profit attributable to owners of parent (Note 3)				11,341							11,341
Cash dividends paid (¥ 50 per share)				(18,112)							(18,112)
Surplus from sale of treasury stock			(0)		3						2
Treasury stock purchased, net					(23,599)						(23,599)
Change in scope of equity method											—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)											—
Other			(34)		26						(8)
Net changes other than stockholders' equity						2,361	200	(0)	821	(379)	3,002
Balance at March 31, 2017	371,055,259	¥185,527	¥17,068	¥387,088	¥(38,739)	¥22,809	¥(247)	¥(305)	¥4,168	¥3,791	¥581,162

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on securities	Net unrealized gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Non-controlling interests (Note 3)	Total
Balance at March 31, 2016	\$1,656,496	\$152,707	\$3,516,602	\$(135,441)	\$182,577	\$(4,000)	\$(2,718)	\$29,887	\$37,240	\$5,433,349
Profit attributable to owners of parent (Note 3)			101,263							101,263
Cash dividends paid (\$0.45 per share)			(161,715)							(161,715)
Surplus from sale of treasury stock		(5)		27						21
Treasury stock purchased, net				(210,711)						(210,711)
Change in scope of equity method										—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders (Note 3)										—
Other		(308)		236						(72)
Net changes other than stockholders' equity					21,081	1,791	(4)	7,330	(3,387)	26,810
Balance at March 31, 2017	\$1,656,496	\$152,393	\$3,456,150	\$(345,889)	\$203,658	\$(2,208)	\$(2,723)	\$37,217	\$33,852	\$5,188,947

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Profit (loss) before income taxes	¥15,911	¥41,448	\$142,064
Depreciation	105,690	106,170	943,664
Decommissioning cost of nuclear power generating plants	1,516	1,539	13,536
Amortization of suspense account related to the decommissioning of nuclear power stations	4,605	4,605	41,117
Equity in losses (earnings) of affiliated companies	(4,477)	(5,784)	(39,976)
Loss on disposal of property	5,085	8,759	45,404
Increase (decrease) in liability for retirement benefits	440	(502)	3,935
Decrease (increase) in asset for retirement benefits	(6,237)	(7,505)	(55,696)
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel	(4,548)	(8,273)	(40,612)
Increase (decrease) in provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	155	298	1,386
Increase (decrease) in reserve for fluctuation in water levels	785	(499)	7,013
Increase (decrease) in provision for depreciation of nuclear power plants	2,793	4,564	24,937
Interest and dividend income	(1,641)	(2,753)	(14,652)
Interest expense	20,806	22,421	185,769
Loss (gain) on sales of stocks of subsidiaries and affiliated companies	—	(6,286)	—
Decrease (increase) in fund reserved for reprocessing of irradiated nuclear fuel	6,351	4,167	56,712
Payments of accrued contribution for reprocessing of irradiated nuclear fuel	(7,939)	—	(70,890)
Decrease (increase) in notes and accounts receivable	(12,115)	1,558	(108,171)
Decrease (increase) in inventories	3,028	13,165	27,043
Increase (decrease) in notes and accounts payable	12,271	(13,559)	109,568
Other	(10,155)	7,828	(90,677)
Subtotal	132,325	171,362	1,181,476
Interest and dividends received	4,105	4,819	36,653
Interest paid	(21,870)	(23,248)	(195,270)
Income taxes refund (paid)	(18,556)	(4,999)	(165,686)
Net cash provided by (used in) operating activities	96,003	147,933	857,172
Cash flows from investing activities:			
Purchase of property	(169,638)	(198,249)	(1,514,633)
Purchase of investments in securities	(67,999)	(85,989)	(607,139)
Proceeds from sale of investment securities	80,389	74,379	717,760
Proceeds from sales of stocks of subsidiaries resulting in change in scope of consolidation	—	1,476	—
Other	9,470	13,734	84,556
Net cash provided by (used in) investing activities	(147,779)	(194,648)	(1,319,455)

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2017	2016	2017
Cash flows from financing activities:			
Proceeds from issue of bonds	156,407	49,822	1,396,497
Repayment of bonds	(160,000)	(55,000)	(1,428,571)
Proceeds from long-term borrowings	221,050	132,600	1,973,660
Repayment of long-term borrowings	(118,035)	(159,248)	(1,053,891)
Proceeds from short-term borrowings	230,053	218,000	2,054,046
Repayment of short-term borrowings	(227,248)	(216,266)	(2,029,004)
Proceeds from issue of commercial paper	128,000	32,000	1,142,857
Repayment of commercial paper	(128,000)	(32,000)	(1,142,857)
Purchase of treasury stock	(23,631)	(36)	(210,994)
Purchase of treasury stock of subsidiaries	—	(652)	—
Cash dividends paid	(18,123)	(18,124)	(161,813)
Dividends paid to non-controlling interests	(16)	(17)	(143)
Other	(1,825)	(2,100)	(16,299)
Net cash provided by (used in) financing activities	58,630	(51,023)	523,486
Effect of exchange rate changes on cash and cash equivalents	(106)	(379)	(951)
Net increase (decrease) in cash and cash equivalents	6,748	(98,118)	60,251
Cash and cash equivalents at beginning of the fiscal year	93,475	191,594	834,601
Cash and cash equivalents at end of the fiscal year (Note 5)	¥100,223	¥93,475	\$894,852

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Chugoku Electric Power Co., Inc. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. (“the Company”) and its consolidated subsidiaries (together with the Company, “the Companies”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and the Electricity Business Act and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112 to U.S. \$1.00. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Numerical values less than one million yen or one thousand dollars are rounded off, excluding per share information. As a result, total values and numerical values obtained by summing each item will not necessarily match. This applies to both Japanese yen units and dollar units.

2. Significant accounting policies

The following is a summary of the significant accounting policies used in the preparation of the consolidated financial statements.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control by the Company. In the elimination of investments in subsidiaries, all the assets and liabilities of a subsidiary, not only to the extent of the Company’s share but also including the non-controlling interest share, are evaluated based on fair value at the time the Company acquired control of the subsidiary.

Investments in non-consolidated subsidiaries and affiliated companies over which the Company has the ability to exercise significant influence over operating and financial policies of the investees are accounted for using the equity method.

For the year ended March 31, 2017, 18 subsidiaries (18 in 2016) were consolidated and 6 (6 in 2016) subsidiaries were excluded from consolidation due to their immateriality for the consolidated total assets, sales and revenues, profit attributable to the owners of the parent, retained earnings, etc., in the consolidated financial statements.

For the year ended March 31, 2017, 6 non-consolidated subsidiaries (6 in 2016) and 9 affiliated companies (9 in 2016) were accounted for by the equity method.

For the year ended March 31, 2017, 13 affiliated companies (13 in 2016) were stated at cost without applying the equity method of accounting. Even if the equity method had been applied to these investments, the amounts of profit and retained earnings, etc., of the affiliated companies would

individually have had only a slight effect and together would have had no material effect on the consolidated financial statements.

The consolidated subsidiaries whose accounting closing date differs from the consolidated closing date are Chugoku Electric Power Australia Resources Pty. Ltd. and Chugoku Electric Power International Netherlands B.V. Both companies have December 31 as their closing date. In drawing up the consolidated financial statements, we use these consolidated subsidiaries' financial statements as of their closing dates and make the necessary adjustments, in consolidated terms, for their important transactions that take place between those dates and the consolidated closing date.

Inventories, fuel and supplies

Inventories, fuel and supplies are stated at cost, determined principally by the weighted average method. Inventories with lower profitability have been written down.

Securities

Available-for-sale securities for which market value is readily determinable are stated at market value as of the end of the period with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings but directly reported as a separate component of net assets. The cost of securities sold is determined by the moving average method. Available-for-sale securities for which market value is not readily determinable are stated primarily at moving average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method or available-for-sale securities declines significantly, the securities are stated at fair market value, and the difference between the fair market value and the book value is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the consolidated statements of operations in the event the net asset value declines significantly. In these cases, the fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Property and depreciation

Depreciation of property, plant and equipment is computed using the declining balance method, while amortization of intangible fixed asset is computed by the straight-line method, based on the useful life periods stipulated by the Corporation Tax Act.

Nuclear fuel and amortization

Nuclear fuel is stated at cost less accumulated amortization. The amortization of loaded nuclear fuel is computed based on the quantity of heat produced for the generation of electricity.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated based on the Companies' historical loss rate with respect to the remaining receivables.

Reserve for fluctuation in water levels

Based on the Act for Partial Revision of the Electricity Business Act, pursuant to the provisions of the Electricity Business Act prior to the revision by this Act, the Company provides drought reserves against fluctuation in water levels in the sums stipulated by a Ministry of Economy, Trade and Industry ordinance.

Provision for depreciation of nuclear power plants

In accordance with the Electricity Business Act, the Company provides for a provision for depreciation of nuclear power plants to equalize the burden of depreciation expenses after commencement of commercial operation based on an ordinance of the Ministry of Economy, Trade and Industry.

Accounting methods pertaining to retirement benefits

In readiness for employees' retirement benefits, the figure obtained by subtracting plan assets from retirement benefit obligations based on the estimated sums at the end of the consolidated accounting year is reckoned as liability for retirement benefits (or as asset for retirement benefits when the plan asset amount exceeds the retirement benefit obligations).

For attributing the estimated retirement benefits to the period up until the end of the fiscal year in determining the retirement benefit obligations, the benefit formula basis is principally followed.

Past service costs are amortized by the straight-line method using a certain number of years (mainly 1 year) within the employee's average remaining service period when the costs occurred.

Actuarial gains/losses are apportioned into sums by the straight-line method using a certain number of years (5 years) within the employee's average remaining service period from the consolidated accounting year in which the difference occurred, and each sum is amortized from the consolidated accounting year following the year of occurrence.

Unrecognized actuarial gains/losses and unrecognized past service costs are reckoned as accumulated adjustments for retirement benefit in accumulated other comprehensive income in the Net Assets section, after adjusting for tax effects.

Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instrument is used for hedging purposes. If used for hedging purposes and meet certain hedging criteria, recognition of gain/loss is deferred until the loss/gain on the hedged item is recognized.

Under Japan's accounting standards, interest rate swap transactions, forward foreign exchange transactions and currency swap transactions are processed together with the hedged items and are not recognized in terms of losses/gains in derivative transactions.

Hedging effectiveness is evaluated by comparing the total cash flow change of the hedging instrument and the total cash flow change of the hedged item. However, assessment of hedge effectiveness is not necessary for interest rate swap transactions, forward foreign exchange transactions and currency swap transactions that meet certain requirements.

Capitalization of interest expense

Interest expense related to debt incurred for the construction of power plants has been capitalized and included in the cost of the related assets pursuant to the accounting regulations under the Electricity Business Act.

Calculating asset retirement obligations for decommissioning specified nuclear power generation facilities

In accordance with an Ordinance of the Ministry of Economy, Trade and Industry, the cost of asset retirement obligations for decommissioning specified nuclear power generation facilities is calculated by applying the straight-line method to the estimated total decommissioning cost for the period equal to the facilities' forecasted operating period plus the estimated safe storage period.

Money transfer and accrual methods for suspense account related to the decommissioning of nuclear power stations, and in expense summing methods

With the change in energy policy, the accounting method used for the retirement of a reactor includes the following: The book value (excluding the estimated cost of disposal) of nuclear power generation facilities related to the relevant reactor (excluding decommissioned assets and assets equivalent to asset retirement obligations), construction in progress related to the relevant nuclear power generation facilities and nuclear fuel related to the reactor and the cost of reprocessing the irradiated fuel and cost of dissolving the nuclear fuel in connection with the relevant reactor's decommissioning can be included as write-off costs in the suspense account related to the decommissioning of nuclear power stations. Specifically, the power company submits an application form to the Minister of Economy, Trade and Industry's approval and carries out the transfers and additions into suspense account related to the decommissioning of nuclear power stations. Then, starting from the month in which approval is received, the company adds the write-off costs to those expense accounts in amounts commensurate with its electricity rate revenue.

Method for recording expenses for implementing reprocessing of spent nuclear fuel

For expenses required in the reprocessing of spent nuclear fuel from power generation, based on the "Act for the Partial Amendment of the Spent Nuclear Fuel Reprocessing Fund Act" (Act No. 40 of 2016; the "Amended Act"), the nuclear power company's obligation to shoulder costs will be fulfilled by paying a contribution to the Nuclear Reprocessing Organization of Japan ("NuRO"), which will then implement the reprocessing, etc. Furthermore, based on Article 4, Paragraph 1 of the Amended Act, the contribution calculated based on the amount of spent nuclear fuel generated during operation depends on the method used to record it as an electric utility operating expense.

Also, from the estimated costs required in the reprocessing of spent fuel generated by the end of FY 2004, a ¥3,306 million difference arising from a change in the FY 2005 reserve fund recording standards has been uniformly recorded as electric utility operating expense each year from the effective date of the Amended Act to FY 2019 based on Article 4 of the supplementary provisions of the Ordinance Partially Amending the Accounting Rules for the Electric Power Industry (Ministry of Economy, Trade and Industry Ordinance No. 94 of 2016).

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments generally with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value.

Foreign currency transactions

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

Consolidated tax system

The Companies apply the consolidated tax system.

3. Changes in accounting policy

• Application of revised accounting standard for business combinations

Standards such as the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013; the "Business Combination Accounting Standard"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013; the "Consolidated Accounting Standard"), and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; the "Business Divestitures Accounting Standard") have been applied from the previous consolidated fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control. Also, there has been a change in the presentation of net income, etc., as well as a change in presentation from minority interests to non-controlling interests.

Regarding the application of the Business Combination Accounting Standard, etc., the transitional handling set forth in section 58-2 (4) of the Business Combination Accounting Standard, section 44-5 (4) of the Consolidated Accounting Standard, and section 57-4 (4) of the Business Divestitures Accounting Standard is being followed, has been applied from the beginning of the previous consolidated fiscal year prospectively.

4. Additional information

• Change in method of recording expenses for implementing reprocessing of spent nuclear fuel

On October 1, 2016, the "Act for the Partial Amendment of the Spent Nuclear Fuel Reprocessing Fund Act" (Act No. 40 of 2016; the "Amended Act") and "the Ordinance Partially Amending the Accounting Rules for the Electric Power Industry" (Ministry of Economy, Trade and Industry Ordinance No. 94 of 2016; the "Amended Ordinance") was put into force, amending the Accounting Rules for the Electric Power Industry.

Since the effective date of the Amended Act, for expenses required in the reprocessing of spent nuclear fuel from power generation, a monetary amount corresponding to the amount of spent nuclear fuel generated during operation is paid as a monetary contribution to the Nuclear Reprocessing Organization of Japan ("NuRO"). Accordingly, the nuclear power company's cost burden responsibility is absolved and NuRO implements the reprocessing, etc.

Also, for expenses required in the reprocessing of spent nuclear fuel, the amount allocated was equivalent to the present value estimated based on the amount of spent nuclear fuel generated in operating the nuclear power station. However, these expenses were changed to be equivalent to the amount paid as a monetary contribution prescribed in Article 4, Paragraph 1, of the Amended Act, which is recorded as an electric utility operating expense.

In the third quarter of the fiscal year ended March 31, 2017, in compliance with Article 3 of the Amended Ordinance's supplementary provisions, there was a reduction of ¥39,705 million (US\$354,517 thousand) in the fund reserved for reprocessing of irradiated nuclear fuel and a reduction of ¥49,937 million (US\$445,868 thousand) in provision for reprocessing of irradiated nuclear fuel. This difference was shifted to other long-term liabilities, etc. In compliance with Article 6 of the supplementary provisions, ¥7,916 million (US\$70,685 thousand) in provision for the reprocessing of irradiated nuclear fuel without a fixed plan to reprocess was shifted to long-term liabilities due within one year. Based on Article 7, Paragraph 1, of the Amended Act supplementary provisions, upon receipt of notice from the Minister of Economy, Trade and Industry, monetary amounts recorded as long-term liabilities due within one year were paid to NuRO during the consolidated fiscal year.

From the estimated costs required in the reprocessing of spent fuel generated by the end of FY 2004, a ¥3,306 million difference arising from the change in the FY 2005 reserve fund recording standards has been uniformly recorded as an electric utility operating expense each year from the effective date of the Amended Act of FY 2019 based on Article 4 of the Amended Ordinance supplementary provisions.

With the implementation of the Amended Act, a ¥33,311 million balance at the end of the previous consolidated fiscal year (for the estimated difference pertaining to the amount equal to the present value

calculated based on the amount of spent fuel before the Amended Act went into effect) is not recognized.

5. Cash and cash equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and time deposits	¥ 65,233	¥ 133,485	\$ 582,442
Time deposits with maturities exceeding 3 months	(30,010)	(40,010)	(267,946)
Short-term investments that mature within 3 months of the acquisition date	65,000	—	580,357
Cash and cash equivalents	¥ 100,223	¥ 93,475	\$ 894,852

6. Property, plant and equipment

The major classifications of property, plant and equipment at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Hydroelectric power production facilities	¥ 120,568	¥ 123,009	\$ 1,076,503
Thermal power production facilities	181,689	187,162	1,622,225
Nuclear power production facilities	90,607	88,989	808,997
Transmission facilities	312,685	322,698	2,791,839
Transformation facilities	142,501	143,580	1,272,338
Distribution facilities	366,652	362,013	3,273,684
General facilities	78,248	80,660	698,648
Inactive facilities	19,217	21,350	171,587
Other electric utility plants and equipment	4,485	4,661	40,048
Other plants	127,514	117,891	1,138,519
Construction in progress	763,091	714,840	6,813,321
Suspense account related to the decommissioning of nuclear power stations	8,876	13,481	79,253
Total	¥ 2,216,140	¥ 2,180,339	\$ 19,786,966

Calculated according to the accounting principles and practices generally accepted in Japan, accumulated gains in relation to the receipt of contributions in aid of construction deducted from the original acquisition costs amounted to ¥94,587 million (US\$844,530 thousand) and ¥92,085 million at March 31, 2017 and 2016, respectively.

7. Financial instruments

1. Issues related to financial instruments

(1) Approach to financial instruments

Most of the Companies' business consists of electric power business and funds that are necessary for capital investment and operations are raised from bonds, long-term borrowings, short-term borrowings and commercial paper ("CP") according to the Companies' plans for financing.

The Companies' fund management involves only highly safe monetary assets pursuant to these plans.

The derivative transactions are only for receivables and payables (actual demand transactions) arising from the business of the Company and certain consolidated subsidiaries. There are no transactions for speculative purposes.

(2) Details and risks of financial instruments and our risk management structure

Long-term investments (available-for-sale securities) consist of stocks of companies that share business interests with us, and the fair value of the stocks and the financial condition of the relevant companies are investigated on a regular basis.

Most of the Companies' notes receivable and accounts receivable consist of receivables for electricity charges and are exposed to customer credit risk. For the relevant risk, each customer's due date and balance are controlled in accordance with power supply conditions.

Short-term investments (held-to-maturity securities) are in the form of negotiable deposits and are exposed to the banks' credit risk. The risk is managed by depositing these investments only with banks that have a high credit rating.

Bonds and loans payable are procured mainly for capital investment. Since many interest-bearing debts consist of long-term funds with fixed interest rates (bonds and long-term borrowings), the fluctuation of market interest rates may have limited impact on our business results. Some long-term funds are used for derivative transactions (interest rate swaps and currency swaps) as a means to hedge risk to mitigate or avoid market fluctuation risk.

Due dates of the most notes payable and accounts payable are within one year.

The Company enters into interest rate swap contracts, forward exchange contracts, commodity swap contracts and currency swap contracts to mitigate and avoid market fluctuation risk. The Company has adopted hedge accounting for these instruments.

Interest rate swap contracts, forward exchange contracts, commodity swap contracts and currency swap contracts are exposed to market risk arising from market price fluctuations.

The Company believes that the related credit risk arising from the event of contract nonperformance by counterparties is extremely low, since the Company uses highly creditworthy financial institutions as counterparties to its derivative transactions, and determines fair values and credit information on a periodic basis.

The Company has established a management function independent from the execution function of derivatives and manages derivative transactions in accordance with internal regulations providing authorization limits, methods of execution, reporting and management, etc.

Although bonds and loans payable are exposed to liquidity risk, the Companies manage liquidity risk by monthly cash management ensuring liquidity that is necessary for operation of the Companies and diversifying financing methods.

(3) Supplemental explanation for financial instruments' fair value

The fair value of financial instruments is the market value or a reasonably calculated value when the relevant instruments do not have a market value. Since value calculation reflects variable factors, the relevant value may change depending on preconditions.

Note that the contract amount for derivative transactions in Note 9, "Derivatives and hedge accounting," does not reflect the market risk for the derivative transaction itself.

2. Issues related to fair value of financial instruments

The following are book values, fair values and the differences as of March 31, 2017 and 2016. Please note that items whose fair value is difficult to evaluate are not included (See Note b).

	Millions of yen						Thousands of U.S. dollars		
	2017			2016			2017		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets									
(1) Long-term investment: Available-for-sale securities	¥ 34,187	¥ 34,187	¥ —	¥ 31,137	¥ 31,137	¥ —	\$ 305,249	\$ 305,249	\$ —
(2) Fund reserved for reprocessing of irradiated nuclear fuel	—	—	—	46,057	46,057	—	—	—	—
(3) Cash and time deposits	65,233	65,233	—	133,485	133,485	—	582,442	582,442	—
(4) Notes receivable and accounts receivable	106,610	106,610	—	93,747	93,747	—	951,881	951,881	—
(5) Short-term investment: Held-to-maturity securities	65,000	65,000	—	—	—	—	580,357	580,357	—
Liabilities									
(6) Bonds	¥ 946,955	¥ 972,251	¥ 25,295	¥ 949,994	¥ 990,660	¥ 40,666	\$ 8,454,963	\$ 8,680,815	\$ 225,852
(7) Long-term borrowings	1,012,882	1,041,156	28,274	910,059	943,553	33,493	9,043,590	9,296,043	252,452
(8) Short-term borrowings	69,245	69,245	—	71,305	71,305	—	618,258	618,258	—
(9) Notes payable and accounts payable	57,818	57,818	—	45,283	45,283	—	516,232	516,232	—
(10) Derivative transactions	¥ (344)	¥ (344)	—	¥ (624)	¥ (624)	—	\$ (3,075)	\$ (3,075)	—

(Note a) Issues related to evaluation method for financial instruments' fair value, securities and derivative transactions

(1) Long-term investment: Available-for-sale securities

Fair values depend on stock exchange quotations.

For the difference between book value of available-for-sale securities and acquisition cost, please refer to Note 8, "Securities."

(2) Fund reserved for reprocessing of irradiated nuclear fuel

The amount of fund reserved for reprocessing of irradiated nuclear fuel is calculated in accordance with "Spent Nuclear Fuel Reprocessing Fund Act" in order to appropriately reprocess spent fuel generated in the course of operating particular nuclear reactors.

In order to redeem the relevant reserve, it is necessary to follow the redemption plan for fund reserved for reprocessing of irradiated nuclear fuel, which was approved by the Minister of Economy, Trade and Industry. Because the book value as of the end of the previous fiscal year was based on the current value for the potential redemption amount as of the end of the previous fiscal year, its fair value is also estimated by the relevant book value.

(3) Cash and time deposits, (4) Notes receivable and accounts receivable and (5) Short-term investment: Held-to-maturity securities

Since these are settled in a short time and their fair values approximate the book values, the relevant book values are quoted for them.

For the difference between fair value of held-to-maturity securities and book value, refer to Note 8, "Securities."

(6) Bonds

Bonds with market value are valued as such. Bonds without market value are valued based on comparable bonds being newly issued or on a price put forward by the financial institution or other organization. Some bonds are subject to the special treatment of interest rate swaps and assignment of currency swaps. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions and currency swap transactions.

(7) Long-term borrowings

The values of long-term borrowings are calculated using terms as if the borrowings were new loans. Some long-term borrowings are subject to the special treatment of interest rate swaps. These are valued based on the same terms and conditions applied to the relevant interest rate swap transactions.

(8) Short-term borrowings and (9) Notes payable and accounts payable

Since these are settled in a short time and their fair values approximate the book values, the relevant book values are quoted for them.

(10) Derivative transactions

Please refer to Note 9, "Derivatives and hedge accounting."

(Note b) Financial instruments for which assessing fair value is extremely difficult

	Millions of yen		Thousands of
			U.S. dollars
	Book value		
	2017	2016	2017
Unlisted stocks	¥ 37,831	¥ 37,863	\$ 337,778
Other	1,034	1,046	9,235
Total	¥ 38,865	¥ 38,909	\$ 347,014

The above do not have market value, and it is hard to estimate their future cash flow. As a result, they are not included in "(1) Long-term investment: Available-for-sale securities."

(Note c) Anticipated redemption schedule for monetary claims and debt securities held to maturity subsequent to the fiscal year-end

	Millions of yen		Thousands of
			U.S. dollars
	Within 1 year		
	2017	2016	2017
Long-term investment:			
Available-for-sale securities with maturity	¥ —	¥ —	\$ —
Fund reserved for reprocessing of irradiated nuclear fuel	—	12,379	—
Cash and time deposits	65,233	133,485	582,442
Notes receivable and accounts receivable	106,610	93,747	951,881
Short-term investment:			
Held-to-maturity securities	65,000	—	580,357
Total	¥ 236,844	¥ 239,612	\$ 2,114,680

(Note d) Anticipated redemption schedule for bonds, long-term borrowings and other interest-bearing debt subsequent to the fiscal year-end

	Millions of yen					
	2017					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	¥ 205,000	¥ 90,000	¥ 236,959	¥ 120,000	¥ 30,000	¥ 265,000
Long-term borrowings	61,102	79,939	90,467	81,497	162,963	536,912
Short-term borrowings	69,245	—	—	—	—	—
Total	¥ 335,347	¥ 169,939	¥ 327,426	¥ 201,497	¥ 192,963	¥ 801,912

	Millions of yen					
	2016					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	¥ 115,000	¥ 205,000	¥ 135,000	¥ 160,000	¥ 120,000	¥ 215,000
Long-term borrowings	117,852	60,499	79,224	89,762	78,820	483,900
Short-term borrowings	71,305	—	—	—	—	—
Total	¥ 304,157	¥ 265,499	¥ 214,224	¥ 249,762	¥ 198,820	¥ 698,900

	Thousands of U.S. dollars					
	2017					
	Within 1 year	1 year - 2 years	2 years - 3 years	3 years - 4 years	4 years - 5 years	Over 5 years
Bonds	\$ 1,830,357	\$ 803,571	\$ 2,115,705	\$ 1,071,428	\$ 267,857	\$ 2,366,071
Long-term borrowings	545,555	713,747	807,744	727,655	1,455,029	4,793,859
Short-term borrowings	618,258	—	—	—	—	—
Total	\$ 2,994,171	\$ 1,517,318	\$ 2,923,450	\$ 1,799,083	\$ 1,722,886	\$ 7,159,930

(Note e) Bonds and long-term borrowings include items whose payment is due within one year.

(Note f) Receivables and liabilities generated from derivative transactions are shown in net amounts. When the total amount is negative (liabilities), the amount is shown in parentheses ().

8. Securities

Held-to-maturity securities

Categories	Millions of yen						Thousands of U.S. dollars		
	2017			2016			2017		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Held-to-maturity securities with fair values exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Held-to-maturity securities with fair values not exceeding book values									
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Other	65,000	65,000	—	—	—	—	580,357	580,357	—
Subtotal	¥ 65,000	¥ 65,000	¥ —	¥ —	¥ —	¥ —	\$ 580,357	\$ 580,357	\$ —
Total	¥ 65,000	¥ 65,000	¥ —	¥ —	¥ —	¥ —	\$ 580,357	\$ 580,357	\$ —

Available-for-sale securities

Categories	Millions of yen						Thousands of U.S. dollars		
	2017			2016			2017		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Available-for-sale securities with book values exceeding acquisition costs									
Equity securities	¥ 33,693	¥ 9,185	¥ 24,507	¥ 30,279	¥ 9,080	¥ 21,199	\$ 300,837	\$ 82,017	\$ 218,820
Bonds	—	—	—	—	—	—	—	—	—
Other	9	2	6	7	2	4	84	26	58
Subtotal	¥ 33,703	¥ 9,188	¥ 24,514	¥ 30,287	¥ 9,083	¥ 21,204	\$ 300,922	\$ 82,043	\$ 218,878
Available-for-sale securities with book values not exceeding acquisition costs									
Equity securities	¥ 484	¥ 496	¥ (11)	¥ 850	¥ 901	¥ (51)	\$ 4,326	\$ 4,428	\$ (101)
Bonds	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Subtotal	¥ 484	¥ 496	¥ (11)	¥ 850	¥ 901	¥ (51)	\$ 4,326	\$ 4,428	\$ (101)
Total	¥ 34,187	¥ 9,684	¥ 24,503	¥ 31,137	¥ 9,985	¥ 21,152	\$ 305,249	\$ 86,472	\$ 218,776

Since for the fiscal years ended March 31, 2017 and 2016, unlisted stocks in the amount of ¥38,865 million (US\$347,014 thousand) and ¥38,909 million in book value had no market value and there was no way to estimate their future cash flow, it is difficult to evaluate their fair value. Hence, unlisted stocks are not included in the above "Available-for-sale securities".

9. Derivatives and hedge accounting

Derivative transactions for which hedge accounting is applied

<Currencies>

			Millions of yen					
Hedge accounting method	Type of transaction	Items to be hedged	2017			2016		
			Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
Assignment of currency swaps	Currency swap							
	Japanese yen payment & U.S. dollars receipt	Bonds	¥ 56,959	¥ 56,959	(Note a)	¥ —	¥ —	¥ —

			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Items to be hedged	2017		
			Amount of contract	Amount of contract longer than 1 year	Fair value
Assignment of currency swaps	Currency swap				
	Japanese yen payment & U.S. dollars receipt	Bonds	\$ 508,562	\$ 508,562	(Note a)

(Note a) Since currency swaps that are treated in “Assignment of currency swaps” are treated together with hedged bonds, the relevant fair value is included in the fair value of the bonds.

<Interest>

			Millions of yen					
Hedge accounting method	Type of transaction	Items to be hedged	2017			2016		
			Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
Special treatment of interest rate swaps	Interest-rate swap							
	Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	¥ 62,145	¥ 61,431	(Note b)	¥ 84,659	¥ 64,145	(Note b)
Fixed-rate payment & flexible-rate receipt	3,000		3,000	(Note b)	3,000	3,000	(Note b)	

			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Items to be hedged	2017		
			Amount of contract	Amount of contract longer than 1 year	Fair value
Special treatment of interest rate swaps	Interest-rate swap				
	Fixed-rate receipt & flexible-rate payment	Bonds & long-term borrowings	\$ 554,866	\$ 548,491	(Note b)
Fixed-rate payment & flexible-rate receipt	26,785		26,785	(Note b)	

(Note b) Since interest-rate swaps that are treated in “Special treatment of interest rate swaps” are treated together with hedged bonds and long-term borrowings, the relevant fair value is included in the fair value of the bonds and long-term borrowings.

<Commodities>

			Millions of yen					
Hedge accounting method	Type of transaction	Items to be hedged	2017			2016		
			Amount of contract	Amount of contract longer than 1 year	Fair value	Amount of contract	Amount of contract longer than 1 year	Fair value
General method	Commodity swap Fixed-rate payment & flexible-rate receipt	Fuel import payment debt (projected transaction)	¥ 8,254	¥ —	¥ (344)	¥ 13,441	¥ —	¥ (624)

			Thousands of U.S. dollars		
Hedge accounting method	Type of transaction	Items to be hedged	2017		
			Amount of contract	Amount of contract longer than 1 year	Fair value
General method	Commodity swap Fixed-rate payment & flexible-rate receipt	Fuel import payment debt (projected transaction)	\$ 73,701	\$ —	\$ (3,075)

(Note c) The fair value of derivative transactions is measured at quoted prices from the financial institutions.

10. Long-term debt

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bonds due through 2036 at rates of 0.13% to 3.6% (Note)	¥ 946,955	¥ 949,994	\$ 8,454,963
Long-term loans from the Development Bank of Japan Inc., other banks and insurance companies due through 2036	1,012,882	910,059	9,043,590
Lease obligations	56	27	507
	1,959,894	1,860,081	17,499,061
Less amounts due within one year	(266,114)	(232,858)	(2,376,026)
Total	¥ 1,693,779	¥ 1,627,222	\$ 15,123,034

(Note) Bonds include zero-coupon bonds with stock acquisition rights due in 2018 and 2020.

At March 31, 2017 and 2016, long-term loans from the Development Bank of Japan Inc. in the amounts of ¥246,027 million (US\$2,196,675 thousand) and ¥243,624 million and all bonds were secured by a statutory preferential right which gives the creditors a security interest in all assets of the Company totaling ¥2,875,781 million (US\$25,676,616 thousand) and ¥2,840,161 million, respectively, senior to that of general creditors. Some assets of subsidiaries are being used as collateral for loans from financial institutions and other sources.

The annual maturities of long-term debt at March 31, 2017 and 2016 were as follows:

Year ending March 31, 2017	Millions of Yen	Thousands of U.S. dollars
2018	¥ 266,102	\$ 2,375,912
2019	169,939	1,517,318
2020	327,426	2,923,450
2021	201,497	1,799,083
Thereafter	994,875	8,882,816

Year ending March 31, 2016	Millions of Yen
2017	¥ 232,852
2018	265,499
2019	214,224
2020	249,762
Thereafter	897,721

Note: Excluding lease obligations.

11. Leases

(As lessee)

Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current portion	¥ 181	¥ 180	\$ 1,619
Non-current portion	197	380	1,766
Total	¥ 379	¥ 561	\$ 3,385

(As lessor)

1. Finance lease transactions

Non-capitalized finance leases before March 31, 2008 have been accounted for in the same manner as operating leases.

Lease payments received under non-capitalized finance leases amounted to ¥204 million (US\$1,830 thousand) and ¥210 million for the years ended March 31, 2017 and 2016, respectively.

The present values of future minimum lease payments to be received under non-capitalized finance leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current portion	¥ 204	¥ 204	\$ 1,830
Non-current portion	632	837	5,649
Total	¥ 837	¥ 1,042	\$ 7,479

2. Operating lease transactions

The present values of future minimum lease payments under operating leases that are non-cancelable as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current portion	¥ 12	¥ —	\$ 112
Non-current portion	27	—	244
Total	¥ 40	¥ —	\$ 357

12. Contingent liabilities

At March 31, 2017 and 2016, the Companies were contingently liable as guarantors for loans of other companies and employees in the amount of ¥113,804 million (US\$1,016,107 thousand) and ¥116,209 million, respectively.

At March 31, 2017, the Company was also contingently liable with respect to certain domestic bonds which were assigned to certain banks under debt assumption agreements in the aggregate amount of ¥45,000 million (US\$401,785 thousand).

13. Research and development expenses

Research and development expenses charged to operating expenses were ¥4,608 million (US \$41,143 thousand) and ¥4,964 million for the years ended March 31, 2017 and 2016, respectively.

14. Retirement benefits

1. Overview of the retirement benefit plan adopted

The Companies provide a defined benefit corporate pension scheme – including a hybrid annuity scheme – and a lump sum plan as their defined benefit type plan.

A premium severance payment is also sometimes made when employees retire or otherwise terminate their employment.

In 1984 the Company adopted a qualified pension plan for a part of its retirement allowance system. In 2004, however, under a review of its regulations concerning retirement allowance/pension plans, it shifted to a hybrid annuity scheme, which is a floating-rate type of pension plan, and shifted to a system offering a choice between a defined contribution pension plan and retirement benefit advance payment scheme for part of its retirement lump sum scheme.

Under the defined benefit corporate pension schemes and retirement lump sum schemes of some of the subsidiaries, the simplified valuation method is used for calculating the assets, liabilities and costs for the retirement benefits. In such cases, each is added to the appropriate itemization in “2. Defined benefit plans” below.

2. Defined benefit plans

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the fiscal year	¥ 274,277	¥ 265,803	\$ 2,448,908
Service cost	9,297	8,638	83,014
Interest cost	259	1,807	2,319
Actuarial loss (gain)	(2,857)	14,259	(25,514)
Benefits paid	(13,930)	(12,839)	(124,376)
Past service cost	—	(1,203)	—
Other	0	(2,187)	0
Balance at end of the fiscal year	¥ 267,047	¥ 274,277	\$ 2,384,351

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the fiscal year	¥ 245,143	¥ 247,678	\$ 2,188,782
Expected return on plan assets	3,513	3,384	31,374
Actuarial loss (gain)	652	595	5,823
Contributions paid by the Companies	4,241	4,982	37,871
Benefits paid	(9,041)	(9,321)	(80,723)
Other	—	(2,175)	—
Balance at end of the fiscal year	¥ 244,510	¥ 245,143	\$ 2,183,128

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations for defined benefit corporate pension schemes	¥ 199,420	¥ 204,682	\$ 1,780,544
Plan assets	(244,510)	(245,143)	(2,183,128)
	(45,089)	(40,460)	(402,584)
Retirement benefit obligations for retirement lump sum schemes	67,626	69,595	603,807
Total net liability (asset) for retirement benefits at end of the fiscal year	¥ 22,536	¥ 29,134	\$ 201,222

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Liability for retirement benefits	¥ 69,160	¥ 71,503	\$ 617,501
Asset for retirement benefits	(46,623)	(42,369)	(416,278)
Total net liability (asset) for retirement benefits at end of the fiscal year	¥ 22,536	¥ 29,134	\$ 201,222

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 9,297	¥ 8,638	\$ 83,014
Interest cost	259	1,807	2,319
Expected return on plan assets	(3,513)	(3,384)	(31,374)
Net actuarial loss (gain) amortization	(2,708)	(5,372)	(24,179)
Past service costs amortization	—	(1,195)	—
Premium severance payments made on a special basis	1	240	15
Retirement benefit costs for defined benefit plans	¥ 3,337	¥ 734	\$ 29,795

(5) Adjustments for retirement benefit

A breakdown of the items (before tax effect deduction) that have been reported as adjustments for retirement benefits is as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥ —	¥ 8	\$ —
Actuarial gains/losses	801	(19,236)	7,158
Total	¥ 801	¥ (19,227)	\$ 7,158

(6) Accumulated adjustments for retirement benefit

A breakdown of the items (before tax effect deduction) that have been reported as accumulated adjustments for retirement benefits is as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial gains/losses	(4,800)	(4,198)	(42,862)
Total	¥ (4,800)	¥ (4,198)	\$ (42,862)

(7) Plan assets

① The percentages of the main categories of plan assets were as follows.

	2017	2016
Bonds	50%	51%
Equity securities	13%	11%
Life insurance general accounts	37%	37%
Other	0%	1%
Total	100%	100%

② Long-term expected rates of return

In order to determine the long-term expected rate of return on plan assets, account is taken of the allocation of current and envisioned plan assets and of the long-term rates of return to be expected currently and in the future from the various assets that make up the plan assets.

(8) Actuarial assumptions

The major actuarial assumptions were as follows.

	2017	2016
Discount rate	mainly 0.2%	mainly 0.1%
Long-term expected rate of return	mainly 1.4%	mainly 1.3%

3. Defined contribution pension plan

The contributions required from the Companies to the defined contribution pension plan amounted to ¥757 million (US\$6,762 thousand) and ¥777 million for the years ended March 31, 2017 and 2016, respectively.

15. Income taxes

The Company is subject to a number of taxes based on income.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Provision for depreciation of nuclear power plants	¥ 22,465	¥ 21,684	\$ 200,580
Excess depreciation	21,538	19,953	192,310
Asset retirement obligations	12,461	12,376	111,262
Adjustment for unrealized intercompany profits	8,633	8,493	77,087
Liability for retirement benefits	6,583	8,486	58,779
Provision for reprocessing of irradiated nuclear fuel	—	5,941	—
Accrued bonuses and other expenses	3,742	3,751	33,416
Other	20,578	17,994	183,732
Total gross deferred tax assets	96,003	98,682	857,174
Less valuation allowance	(12,035)	(10,883)	(107,463)
Total deferred tax assets	83,967	87,798	749,711
Deferred tax liabilities:			
Unrealized holding gains on securities	(7,224)	(6,376)	(64,504)
Suspense account related to the decommissioning of nuclear power stations	(2,492)	(3,791)	(22,257)
Other	(1,668)	(1,547)	(14,893)
Total deferred tax liabilities	(11,385)	(11,716)	(101,655)
Net deferred tax assets	¥ 72,582	¥ 76,082	\$ 648,055

The causes of the discrepancy between the statutory tax rate and the effective income tax rate after application of tax effect accounting in the years ended March 31, 2017 and 2016 were as follows.

	2017	2016
The Company's statutory tax rate	28.20%	28.80%
(adjustment)		
Equity in losses (earnings) of affiliated companies	(7.94%)	(4.02%)
Less valuation allowance	7.25%	2.24%
Loss (gain) on change in equity	2.77%	—
Decrease in year-end deferred tax assets due to tax rate changes	—	5.08%
Other	0.91%	2.90%
Effective income tax rate after application of tax effect accounting	31.19%	35.00%

16. Asset retirement obligations

Asset retirement obligations included in the consolidated balance sheets

(1) Outline of the asset retirement obligations

Asset retirement obligations are recorded mainly in conjunction with measures to decommission specified nuclear power generation facilities under the “Act on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors.” In accordance with the Ordinance of the Ministry of Economy, Trade and Industry, the cost is calculated by applying the straight-line method to the estimated total decommissioning cost for the period equal to the facilities’ forecast operating period plus the estimated safe storage period.

(2) Method of calculating the value of the asset retirement obligations

The value of the asset retirement obligations was calculated mainly by taking as the estimated use period the accumulation period (generation facilities’ forecasted operating period plus the estimated safe storage period) which is prescribed in the Ordinance of the Ministry of Economy, Trade and Industry, and using a discount rate of 2.3%.

(3) Variation in the total value of the asset retirement obligations during the fiscal year ended March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the fiscal year	¥ 75,747	¥ 73,972	\$ 676,313
Changes in estimated obligations and accretion	1,654	1,774	14,774
Balance at end of the fiscal year	¥ 77,401	¥ 75,747	\$ 691,087

17. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock.

However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Company Law, in cases in which a dividend distribution of surplus is made, companies are required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends as additional paid-in capital or as legal earnings reserve until the total of these equals 25% of common stock. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Neither additional paid-in capital nor legal earnings reserve can be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese law and regulations.

At the annual stockholders’ meeting held on June 28, 2017, the stockholders approved cash dividends amounting to ¥8,613 million (US\$76,904 thousand). The appropriations had not been accrued in the consolidated financial statements as of March 31, 2017. Such appropriations are recognized in the period in which they are approved by the stockholders.

18. Segment information

The Companies' reporting segments are structural units of the Companies that are separated from the others and for which separate financial information is available. This information is the subject of periodic deliberations by the Board of Directors in order to decide the allocation of business resources and evaluate business results.

With electric power as their core, the Companies are developing total solution operations by focussing pouring business resources into strategic business domains that can exploit the Companies' strengths.

Thus, the Companies, with electric power as their nucleus, are composed of three segments each of which provides different products and services using the business resources possessed by the Companies: "Electric power," "Comprehensive energy supply," and "Information and telecommunications."

In the "Electric power" segment, we supply power within the Chugoku Region as the basis of our operational development. In the "Comprehensive energy supply" segment, we provide energy utilization services that include the sale of LNG and other fuels and the sale of electricity and heat. In the "Information and telecommunications" segment, we provide electrical communications and data processing services utilizing ICT (Information and Communications Technology).

Other business segments, not comprised in the reporting segments include those in which we carry out environmental harmony creation, business/lifestyle support, electric power business support and like operations.

A summary by segment for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen							
	2017							
	Reporting segment				Other	Total	Adjustment (Note)	Consolidated
Electric power	Comprehensive energy supply	Information and tele- communications	Total					
Operating revenues:								
Outside customers	¥ 1,096,722	¥ 33,625	¥ 29,037	¥ 1,159,386	¥ 40,993	¥ 1,200,379	¥ —	¥ 1,200,379
Intersegment	4,008	1,809	12,117	17,935	78,110	96,046	(96,046)	—
Total	1,100,731	35,434	41,155	1,177,322	119,104	1,296,426	(96,046)	1,200,379
Segment income (loss)	¥ 27,746	¥ 2,070	¥ 2,769	¥ 32,586	¥ 2,721	¥ 35,307	¥ (787)	¥ 34,520
Segment assets	2,843,244	39,542	81,561	2,964,348	260,459	3,224,807	(124,053)	3,100,754
Other items:								
Depreciation expense	¥ 92,421	¥ 2,148	¥ 8,589	¥ 103,159	¥ 3,582	¥ 106,741	¥ (1,051)	¥ 105,690
Investment in equity method affiliated companies	9,334	4,134	—	13,469	98,647	112,117	—	112,117
Value increase in tangible and intangible assets	152,914	1,845	8,315	163,075	3,502	166,578	(2,394)	164,184

Millions of yen								
2016								
Reporting segment								
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	¥ 1,113,637	¥ 42,081	¥ 27,553	¥ 1,183,271	¥ 48,300	¥ 1,231,572	¥ —	¥ 1,231,572
Intersegment	3,200	1,650	12,755	17,605	86,014	103,620	(103,620)	—
Total	1,116,837	43,731	40,308	1,200,877	134,315	1,335,192	(103,620)	1,231,572
Segment income (loss)	¥ 38,727	¥ 3,632	¥ 4,602	¥ 46,961	¥ 4,192	¥ 51,154	¥ (1,138)	¥ 50,015
Segment assets	2,812,508	38,514	80,181	2,931,204	274,381	3,205,586	(134,637)	3,070,948
Other items:								
Depreciation expense	¥ 94,290	¥ 1,204	¥ 8,298	¥ 103,793	¥ 3,536	¥ 107,329	¥ (1,159)	¥ 106,170
Investment in equity method affiliated companies	9,525	3,844	—	13,370	104,239	117,609	—	117,609
Value increase in tangible and intangible assets	185,957	3,924	10,572	200,454	7,627	208,082	(3,115)	204,967

Thousands of U.S. dollars								
2017								
Reporting segment								
	Electric power	Comprehensive energy supply	Information and tele-communications	Total	Other	Total	Adjustment (Note)	Consolidated
Operating revenues:								
Outside customers	\$ 9,792,165	\$ 300,231	\$ 259,267	\$ 10,351,664	\$ 366,012	\$ 10,717,676	\$ —	\$ 10,717,676
Intersegment	35,792	16,151	108,195	160,139	697,417	857,556	(857,556)	—
Total	9,827,958	316,383	367,462	10,511,803	1,063,429	11,575,233	(857,556)	10,717,676
Segment income (loss)	\$ 247,732	\$ 18,488	\$ 24,729	\$ 290,950	\$ 24,295	\$ 315,246	\$ (7,031)	\$ 308,214
Segment assets	25,386,111	353,058	728,224	26,467,395	2,325,529	28,792,924	(1,107,618)	27,685,305
Other items:								
Depreciation expense	\$ 825,194	\$ 19,181	\$ 76,694	\$ 921,070	\$ 31,982	\$ 953,052	\$ (9,388)	\$ 943,664
Investment in equity method affiliated companies	83,344	36,918	—	120,262	880,785	1,001,047	—	1,001,047
Value increase in tangible and intangible assets	1,365,310	16,475	74,245	1,456,031	31,276	1,487,307	(21,377)	1,465,929

(Note) “Adjustment” of “Segment income (loss)” in an amount of ¥(787) million (US\$(7,031) thousand) and ¥(1,138) million refers to intersegment elimination for the years ended March 31, 2017 and 2016, respectively.

“Adjustment” of “Segment assets” in an amount of ¥(124,053) million (US\$(1,107,618) thousand) and ¥(134,637) million refers mainly to intersegment elimination for the years ended March 31, 2017 and 2016, respectively.

“Adjustment” of “Value increase in tangible and intangible assets” in an amount of ¥(2,394) million (US\$(21,377) thousand) and ¥(3,115) million refers mainly to intersegment elimination for the years ended March 31, 2017 and 2016, respectively.

Since the categories for products and services are the same as the categories within the reporting segments, information about individual products and services is omitted here.

Since the Companies' sales to external customers in Japan accounted for over 90% of the total sales in the Consolidated Statements of Operations for the fiscal years ended March 31, 2017 and 2016, information concerning region-by-region sales amounts is omitted here.

Since the value of the Companies' tangible fixed assets located in Japan accounted for over 90% of the value of tangible fixed assets in the consolidated balance sheets as of March 31, 2017 and 2016, information concerning region-by-region tangible fixed assets is omitted here.

Since no customer among the Companies' external customers accounted for 10% or more of the total sales in the Consolidated Statements of Operations for the fiscal years ended March 31, 2017 and 2016, information concerning major customers is omitted here.

19. Subsequent event

The following appropriations of retained earnings at March 31, 2017 were approved at the annual meeting of stockholders held on June 28, 2017:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25 (US\$0.22) per share	¥ 8,613	\$ 76,904



Independent Auditor's Report

To the Board of Directors of
The Chugoku Electric Power Co., Inc.

We have audited the accompanying consolidated financial statements of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Chugoku Electric Power Co., Inc. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 27, 2017
Hiroshima, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Non-Consolidated Balance Sheets

The Chugoku Electric Power Co., Inc.
March 31, 2017 and 2016

Assets	Millions of yen		Thousands of U.S.dollars
	2017	2016	2017
Property, plant and equipment:			
Plant and equipment	¥5,697,886	¥5,667,193	\$50,873,986
Construction in progress	770,829	710,065	6,882,403
Suspense account related to the decommissioning of nuclear power stations	8,876	13,481	79,253
	6,477,592	6,390,740	57,835,643
Less-			
Contributions in aid of construction	91,750	89,244	819,198
Accumulated depreciation	4,246,139	4,198,446	37,911,961
	4,337,889	4,287,691	38,731,159
Net property, plant and equipment	2,139,702	2,103,048	19,104,483
Nuclear fuel	147,485	158,576	1,316,833
Investments and other assets:			
Investment securities	68,077	65,504	607,833
Fund reserved for reprocessing of irradiated nuclear fuel	—	46,057	—
Investments to subsidiaries and affiliated companies	45,236	42,137	403,892
Long-term loans to employees	36	59	323
Deferred tax assets	53,674	57,931	479,238
Other assets	124,639	94,005	1,112,855
Total investments and other assets	291,664	305,698	2,604,144
Current assets:			
Cash and time deposits	56,874	124,712	507,804
Receivables, less allowance for doubtful accounts of ¥367 million (\$3,283 thousand) in 2017 and ¥437 million in 2016	109,727	83,394	979,707
Short-term investment	65,000	—	580,357
Inventories, fuel and supplies	41,301	42,647	368,762
Deferred tax assets	8,131	7,254	72,606
Other current assets	15,894	14,829	141,916
Total current assets	296,929	272,838	2,651,155
Total assets	¥2,875,781	¥2,840,161	\$25,676,616

Liabilities and Net Assets	Millions of yen		Thousands of U.S.dollars
	2017	2016	2017
Long-term liabilities:			
Long-term debt	¥1,657,367	¥1,593,814	\$14,797,920
Employees' severance and retirement benefits	56,842	56,785	507,523
Provision for reprocessing of irradiated nuclear fuel	-	54,485	-
Provision for reprocessing of irradiated nuclear fuel without a fixed plan to reprocess	-	7,761	-
Asset retirement obligations	76,781	75,265	685,549
Other long-term liabilities	29,163	15,457	260,388
Total long-term liabilities	1,820,154	1,803,571	16,251,381
Current liabilities:			
Long-term debt due within one year	262,402	230,066	2,342,882
Short-term borrowings	67,035	67,035	598,526
Accounts payable	74,333	62,478	663,691
Accrued income taxes	4,153	14,240	37,082
Accrued expenses	63,578	59,289	567,667
Other current liabilities, including other long-term liabilities due within one year	83,773	81,996	747,975
Total current liabilities	555,276	515,106	4,957,825
Reserve for fluctuation in water levels	1,220	435	10,901
Provision for depreciation of nuclear power plants	80,348	77,555	717,400
Net Assets:			
Common stock	185,527	185,527	1,656,496
Authorized - 1,000,000,000 shares			
Issued - 371,055,259 shares in 2017 and 2016			
Capital surplus	16,727	16,728	149,356
Retained earnings	243,514	246,970	2,174,236
Treasury stock (26,522,804 shares in 2017 and 8,547,616 shares in 2016)	(38,345)	(14,749)	(342,373)
Net unrealized holding gains (losses) on securities	11,603	9,463	103,599
Net unrealized gains (losses) on hedges	(247)	(448)	(2,208)
Total net assets	418,779	443,492	3,739,107
Total liabilities and net assets	¥2,875,781	¥2,840,161	\$25,676,616

Major Subsidiaries and Affiliated Companies

(As of March 31, 2017)

Name	Capital (Millions of yen except for ※1,※2)	a percentage of voting rights (%)	Business
CHUDEN KOGYO CO.,LTD.*	77	100.0	Contracting out construction and painting projects
CHUDEN PLANT CO.,LTD.*	200	100.0	Construction of power facilities
CHUGOKU INSTRUMENTS CO.,INC.*	30	100.0	Repair of electric power meters, electrical work and telecommunications engineering
CHUGOKU KIGYO Co.,Inc.*	104	100.0	Realty, building management and leasing
CHUDEN KANKYO TECHNOS CO.,LTD.*	50	100.0	Operation and management of power station equipment
Energia Communications,Inc.*	6,000	100.0	Telecommunications business,data processing
EnerGia Business Service Co.,Inc.*	490	100.0	Financial services for the Group,accounting and personnel-related services
Energia Solution & Service Company, Incorporated*	4,653	100.0	Cogeneration, dispersed power sources,fuel sales and other energy use business,electric water heater sales and leasing
Power Engineering and Training Services, Incorporated*	288	100.0	Training in thermal power generation technology, engineering
Chugoku Electric Power Australia Resources Pty. Ltd*	60 Millions of Australian \$ ※1	100.0	Exploration, development, production business of energy resources
Chugoku Electric Power International Netherlands B.V.*	1 US \$ ※2	100.0	Investment, financing and providing guarantees for overseas electricity projects
Denryoku Support Chugoku Co.*	65	100.0	design of distribution equipment
CHUDEN ENGINEERING CONSULTANTS CO., LTD.*	100	100.0 (10.0)	Civil engineering and construction consulting
The Energia Logistics Co.,Inc.*	40	70.0	Logistics(Shipping, etc.)
TEMPEARL INDUSTRIAL CO.,LTD.*	150	57.6 (1.0)	Manufacturing of electric machine tools
CHUGOKU KOATSU CONCRETE INDUSTRIES CO.,LTD.*	150	50.1	Manufacturing of concrete products and civil engineering / foundation construction
ADPLEX Co.,Ltd.*	30	47.6 (0.9)	Printing,advertising
EnerGia Care Service Co.,Inc.*	78	100.0 (66.7)	Management of a nursing home,day-care services,home nursing care services
Setouchi Joint Thermal Power Co.,LTD.**	5,000	50.0	Thermal power generation
CHUGOKU HEALTH AND WELFARE CLUB CO.,INC.**	50	50.0	Welfare agency services
MIZUSHIMA LNG COMPANY,LIMITED**	800	50.0	Accepting consignments to receive,store,convert into gas form and deliver liquefied natural gas (LNG), gas pipeline service business
Setouchi Power Corporation**	100	50.0	Supply of electric power
Osaki CoolGen Corporation**	490	50.0	Development of Coal Gasification Technology
CHUDENKO CORPORATION**	3,481	39.3 (0.2)	Electrical and telecommunications engineering
CHUGOKU ELECTRIC MFG.CO.,LTD.**	150	40.0	Manufacturing of electric machine tools
Houseplus Chugoku Housing Warranty Corporation Limited**	50	33.3	Functional evaluation and construction confirmation checks for housing
OZUKI STEEL INDUSTRIES CO.,LTD.**	50	20.0	Manufacturing of cast steel products

* Consolidated subsidiary

** Affiliated company accounted for by the equity method

Note:The figure in parentheses () after a proportion of voting rights held is the percentage, among those, of indirectly-held voting rights.

Investor Information

(As of March 31, 2017)

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

KPMG AZSA LLC

TRANSFER AGENT AND REGISTRAR:

Sumitomo Mitsui Trust Bank, Limited

SECURITIES TRADED:

Tokyo Stock Exchange, Inc.

NUMBER OF STOCKHOLDERS: 122,585

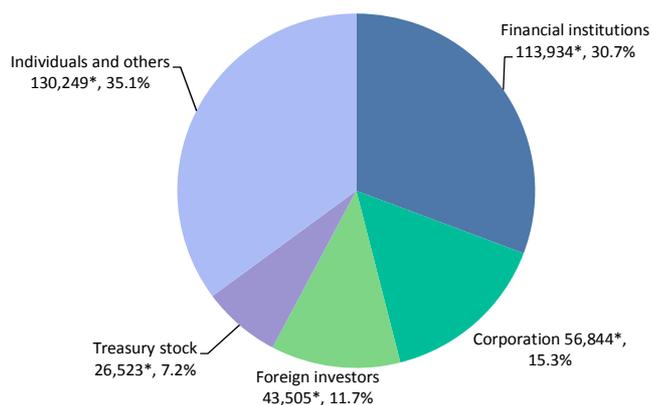
COMMON STOCK ISSUED: 371,055,259 shares

MAJOR STOCKHOLDERS

Name	Number of Stocks Held (thousands)	Percentage (%)
Japan Trustee Services Bank, Ltd.	40,405	10.89
Yamaguchi Prefecture	34,005	9.16
The Master Trust Bank of Japan, Ltd.	23,565	6.35
Nippon Life Insurance Company	14,913	4.02
Company stock investment	7,328	1.97
The Hiroshima Bank, Ltd.	5,842	1.57
THE SAN-IN GODO BANK, LTD.	5,547	1.50
STATE STREET BANK WEST CLIENT - TREATY 505234	4,067	1.10
JP MORGAN CHASE BANK 385151	3,288	0.89
Trust & Custody Services Bank, Ltd.	3,283	0.88

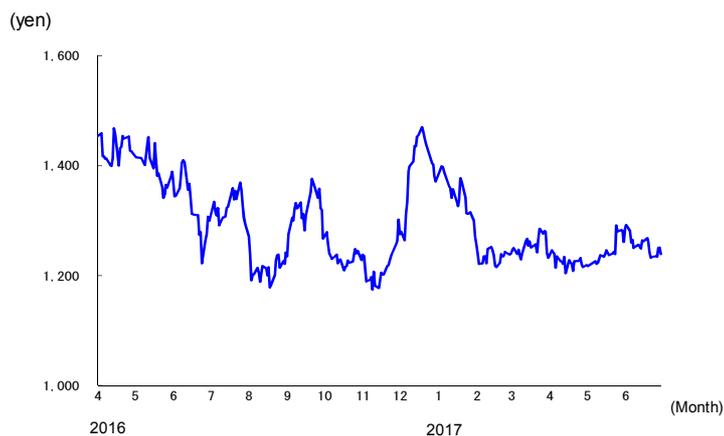
Note: The table above excludes 26,523 thousand shares of treasury stock.

DISTRIBUTION OF COMMON STOCK ISSUED



*Thousands of stocks

STOCK PRICE RANGE ON THE TOKYO STOCK EXCHANGE



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